Annual Report 2022

Marlborough Lines

Energising Marlborough's Future

▲ Richard Jones, Hayden Marfell, Taine Cragg-Love and Kyle Marfell preparing to construct a section of new line.

The energy landscape is changing. There will be challenges to face, but our team are energised and ready to tackle them.

We take pride in our vision of "Energising Marlborough's future" and in working for our community. We are proud to be Marlborough Lines.

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Introduction

Resourcing Team Leader, Tony Root, and Customer Works Team Leader, Rachel McCormick.


Marlborough
Lines

About Us

Who are we?

We see ourselves as part of a wider team that encompasses:

- Our 26,000+ consumers;
- Our region – businesses, local residents, sponsorships;
- Our trustees and shareholder – the Marlborough Electric Power Trust (MEPT);
- Our people – the Board of Directors, Senior Leadership Team, and our employees; and
- Our investments in Yealands Wine Group Limited (YWG) and Nelson Electricity Limited (NEL).

Marlborough Lines Limited (MLL) primarily manages Marlborough's electricity distribution network, which is located at the top of the South Island of New Zealand. The region's electricity is supplied from a single Transpower point and from there radiates out to the wider Marlborough region.

MLL is part of a Group structure that includes our subsidiary YWG, and a 50% share of NEL. We are required by legislation to operate as a successful business and we continue to achieve this in both financial and operational terms.

The Marlborough region

MLL is based in Blenheim, the largest town in the Marlborough region. Marlborough has a population of approximately 49,000 people. Famous for its moderate climate, the region experiences about 2,400 sunshine hours each year.

Marlborough is New Zealand's largest wine region and produces over 75% of New Zealand's wine. It has more than 29,000 hectares of land currently planted in grapes and further plantings are continuing. As well as wine, Marlborough is known for aquaculture, farming, forestry, and tourism.

About this report

This 2022 Annual Report summarises the operations, activities, financial performance and position for MLL and the Marlborough Lines Group for the year ended 30 June 2022.

Some of the MLL electricity network reliability information provided in this report relates to the 12 months ended 31 March, as the Commerce Commission uses this period for monitoring industry operational performance.

Consistent with our commitment to environmental sustainability, MLL no longer prints its Annual Report and interested parties can access the electronic (PDF) version on our website **www.marlboroughlines.co.nz**.

Report objectives

We recognise that different information is relevant to the Company's various stakeholders, and therefore have included in this report both financial and non-financial information, a frequently asked questions section, and a description of the electricity industry supply chain.

▲ Our network in the Marlborough Sounds presents some unique challenges.

Structure and Location

1 Marlborough Sounds

Our supply network extends into a number of isolated areas (including the Marlborough Sounds) that pose unique challenges for electricity supply.

2 Blenheim and Marlborough

Marlborough Lines Limited (the Parent Company) is based in Blenheim in the Marlborough region.

Unlike many other regional networks, Marlborough Lines Limited (MLL) has a single point of supply (in Blenheim) with an extensive sub-transmission system and 16 zone substations.

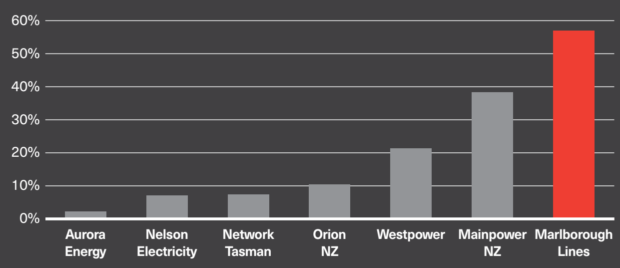
3 Seddon

Yealands Wine Group (YWG) is based at Seaview near the township of Seddon, Awatere Valley.

4 Nelson

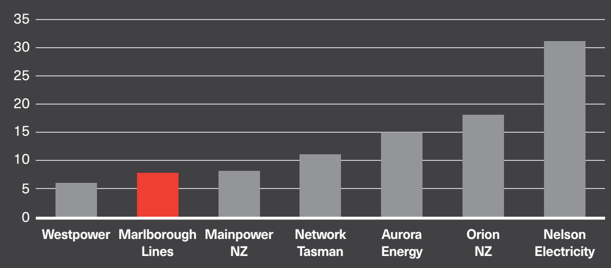
MLL jointly owns Nelson Electricity Limited (NEL) with Network Tasman Limited. Both companies own 50%.

Remote and/or Rugged Terrain (%)



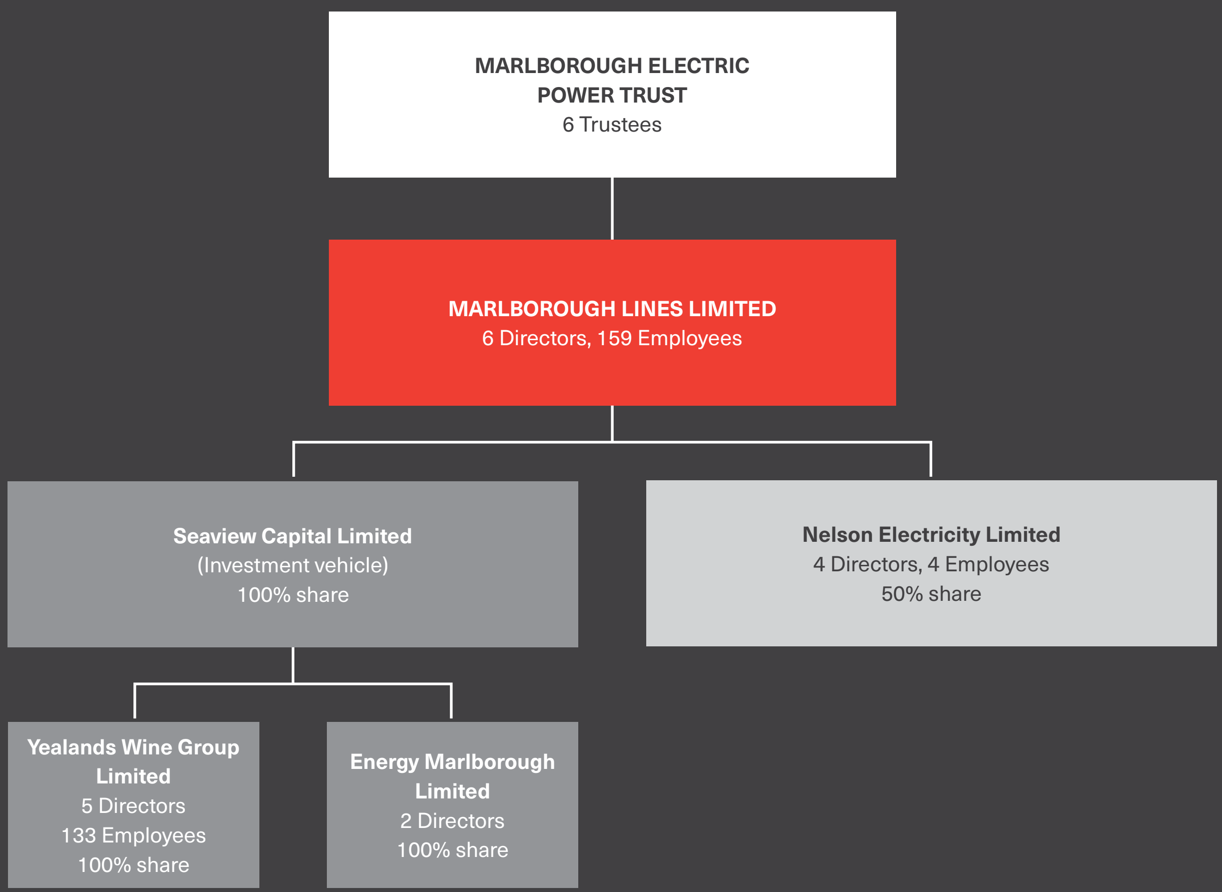
57% of MLL's network is located on remote and/or rugged terrain. Source: Company 2021 Information Disclosure Schedules.

Connection Density (ICP/km)



MLL has, on average, 7.8 electricity connections per kilometre of network. Source: Company 2021 Information Disclosure Schedules.

Marlborough Lines Ownership Structure
As at 30 June 2022



Performance Overview

Group Financial Results

Total operating revenue ▼ DOWN 3.3%

$139.9 million

Revenue below prior year due to lower wine sales following low vintage 2021. Includes finance income.

Earnings before interest, tax, depreciation and amortisation (EBITDA) ▲ UP 64%

$27.4 million

EBITDA up on prior year, with lower wine cost of sales largely as a result of higher harvest volumes for vintage 2022.

Net profit after tax (NPAT) ▲ UP 166%

$14.5 million

NPAT up on prior year, impacted by the increase to EBITDA, and assisted by gains on interest rate swaps.

Key Network Metrics

Volume of energy distributed ▼ DOWN 1.9%

409 GWh

Network volume down on prior year. Impacted by lower irrigation volumes due to rainfall above average, particularly during February 2022.

Average total minutes of lost supply per consumer per year ▲ UP 76%

243 minutes

Average outage minutes 105 minutes higher than last year, with 100 minutes attributable to the July 2021 storm event.

Total active Marlborough network connections ▲ UP 0.9%

26,422 consumers

Marlborough continues to have slow and steady growth in connections.

Parent Outcomes

Capital and maintenance expenditure to increase capacity and improve reliability ▲ UP 12%

$23.6 million

Capital and maintenance expenditure up as prior year was impacted by COVID restrictions.

Total discounts, inclusive of GST, paid to Marlborough consumers ▼ DOWN 14%

$10.0 million

MLL returned to a single discount payment after two discount payments were made in the prior year to adjust timing.

Total dividend paid to the Marlborough Electric Power Trust CONSISTENT

$1.8 million

Dividend paid to the Trust held at $1.8 million.

Yealands Outcomes

Total grapes processed ▲ UP 98%

27,070 tonnes

Yealands owned and grower harvest yield up 56% following a low vintage 2021 and supplemented with contract wine making to maximise winery capacity. Note, a small amount of Yealands grower grapes were processed in another region.

Revenue ▼ DOWN 5.8%

$93.0 million

Wine sales down this year with the continued impact of COVID-19 on on-premise sales, along with shipping delays. Also there was a reduction in available wine.

Dividends paid ▲ UP FROM $0

$1.25 million

Yealands Wine Group paid a dividend to Marlborough Lines, along with reducing debt by $10 million, during the year.

Review of Operations

► Line mechanics, Matt McCormick and Hamish Stevenson.


Marlborough Lines
PETZL
Marlborough Lines
Marlborough Lines

Chair's Report

Marlborough Lines Limited (MLL) has taken some early strides in its journey towards its Energise Marlborough vision that was announced last year. These include:

- Progress on solar developments;
- Investigation of remote area power system alternatives; and
- The recent announcement of the search for a strategic partner for Yealands.

It is exciting times for the Company and I look forward to sharing further information on these developments as they unfold.

Climate change is upon us

Following the extreme flooding event that occurred in July 2021, another event came only 13 months later in August 2022. Both of these caused significant disruption to the electricity supply in the Marlborough Sounds region and required significant company resources to restore supply to all of MLL's consumers. The effects of the August 2022 storm will likely be felt by MLL for some time as the Company reinforces the network as a result of damage caused. There will also be ongoing disruption as road access to MLL's network is again restricted. The roading authorities are discussing the options around the scale of the road rebuild, which will have implications for MLL's ability to access its network and the costs of maintaining it. MLL implemented differential pricing for its remote consumers in 2021, in order to improve cost reflectivity to groups of consumers and these recent events suggest that the difference in costs to supply remote consumers is widening.

These two major weather events within close succession highlight the impacts of climate change on MLL's network and the need for a resilient network. This Annual Report includes a section on climate risk and how MLL is responding to these challenges.

A positive year for Yealands

This time last year, I highlighted that COVID-19 and the light harvest for vintage 21, had Yealands Wine Group (YWG) looking at a low income year. Wine sales were always going to be a challenge with around 24% less wine in the tanks than last year. However, the team at YWG worked hard to reduce the impact of the smaller available inventory in FY22 and generated some good margins on sales, resulting in gross margin above last year.

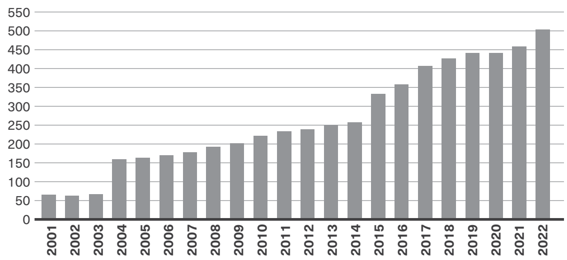
The YWG team also navigated the challenges of the COVID-19 peak in Marlborough coinciding with vintage 22 in March and April this year, and processed a large crop from its own vineyards and contract growers, along with providing contract wine making for other industry players. This meant that the Seaview winery processed its largest ever intake of grapes, maximising its 27,000 tonne consented capacity.

YWG also saw a decrease to its capital expenditure as it has largely completed vineyard developments of its recently acquired Marfell and Dodson vineyards at Seaview and the Maher vineyard in the Awatere Valley. The development of these vineyards will literally bear fruit in future years, with the first crop expected off Maher in 2023. The investment in the quality of the YWG winery and vineyards has also been recognised through a $29.5 million uplift to its fair value during the year. The reduction to capital expenditure has also allowed YWG to repay $10 million of debt over the past year and also pay a $1.25 million dividend to MLL. The 'Our Investments' section of this Annual Report has some further information on YWG's performance.

Impact on the shareholder

Dividends from both YWG and Nelson Electricity Limited (NEL) have assisted MLL to pay a $1.8 million dividend to Marlborough Electric Power Trust (MEPT). This will mean, in turn, that there will likely be a distribution from MEPT to consumers in January 2023. The graph below highlights the growth in value that has occurred over the last eight years following MLL's successful divestment of OtagoNet and reinvestment of those funds in YWG.

Equity Attributable to the Shareholder ($m)



The Group's equity value has increased from $65m in 2001 to $503m in 2022, through a combination of revaluations, realised gains on sale of investments and retained earnings.

A team effort

The MLL Board has again this year appreciated the strong support from the MEPT and especially my regular meeting with the Trust Chair, Nicki Stretch.

I would like to thank Deborah Selby for her contributions to the Board. Deborah has returned to her role as CFO of Electra Group and resigned from her role on the MLL Board. The MLL Board has appreciated her input over the last two and a half years.

Also a thank you to Matt Thomson, Tiffani Graydon and the team at YWG, along with Phil Goodall and the team at NEL for their efforts in working towards each company's objectives.

Finally, to Tim Cosgrove and the entire team at MLL, I would like to extend my gratitude to you, who work tirelessly to ensure our consumers receive stable supply and great service, with a focus on affordability. Thanks for your efforts.

Phil Robinson

CHAIR

Chief Executive Officer's Report

Living the Mission

Deliver sustainable regional growth and equity through people, technology and environmental leadership.

Marlborough Lines Limited (MLL) continues to advance initiatives to deliver on its Mission.

Key focus areas this year have been:

- Providing opportunities for advancement and professional development of the Team;
- Organisational structure and resourcing to deliver on future needs;
- Removing barriers to electrification through strategic network growth;
- Improving visibility of our low voltage network to better understand future needs;
- Initiating Energy Marlborough's renewable generation development pipeline of projects and developing internal capability to deliver these projects;
- Continuing the journey of more cost reflective pricing and balancing service levels to better reflect the cost to serve; and
- Delivering targeted sponsorships to provide opportunities for Marlborough youth and improve Marlborough's environment.

The Team delivered

This past year has once again tested the resilience of the MLL Team and its network. A 1-in-100-year flood in July 2021 caused significant disruption and damage to the network. Activation of emergency response plans enabled the Team to quickly restore supply, with the majority of affected consumers restored within 24 hours.

This event has once again highlighted the challenges and costs associated with maintaining services to remote areas, in particular the Marlborough Sounds.

The Team stepped up again when faced with another COVID lockdown. This time around the impact on the business was mitigated through implementing the lessons from the previous lockdown, however field work was disrupted which required a significant amount of catchup work after lockdown to get the capital programme back on track.

There continues to be a focus on growing capability within the Team through providing advancement opportunities, professional development and targeted recruitment. The recent restructure is starting to deliver on the desired outcomes. As with any change, there continues to be engagement with staff and further changes will be based on that feedback.

Electrification – need for strategic timeframes

Although timeframes remain uncertain, it is widely accepted that with the right market settings, the transition to electrification will occur sooner than originally contemplated. Distribution networks need to be positioned to deliver increased capacity.

This requires a shift from the more traditional 10-year planning horizon to a longer-term strategic timeframe to better accommodate delivery of step changes in network capacity. This is particularly relevant for smaller networks such as MLL, which currently only has a single grid connection point to Transpower.

Engagement with key industrial and commercial stakeholders has provided a good understanding of the scale of the potential load to be transitioned from fossil fuels in the region. Medium term supply risk with biomass means there remains some uncertainty about whether parties will take that risk or more logically transition straight to electricity.

MLL continues to support our local airline Soundsair as it continues to be an industry leader in the electrification of commercial aviation in New Zealand. Great to see a local business putting Marlborough on the map.

Kiwirail's new hybrid ferry project is progressing and MLL is working closely with Kiwirail to enable connection to the distribution network to facilitate charging of the ships batteries and running of in port services. This is a significant project with the peak demand consuming approximately 10% of MLL's total network capacity.

The wine sector continues to embrace decarbonisation with several projects delivering increased electrical capacity to displace diesel consumed for irrigation or peak generation to cover the harvest.

Resilience

Shifting weather patterns are now influencing future network planning, with a review underway of potential threats to MLL's network through increased rainfall and predicted sea level rises. MLL is proactively identifying and relocating assets that are at risk of climate-related issues, such as high river levels following extreme events.

The year has seen the completion of two major sub-transmission projects to increase resilience through meshing of the network and improving network redundancy.

Remaining flexible and expanding our planning horizons have been key to delivering on project outcomes and minimising the impacts of COVID.

Environmental

MLL subsidiary Energy Marlborough has made significant progress with its solar photovoltaic generation projects. Construction contracts have been executed for the 850kW system at Taylor Pass with commissioning expected early in 2023. This is a pilot project to develop internal capability and de-risk future larger scale projects.

A major focus has been reducing MLL's own diesel generator use to maintain supply while undertaking planned outages. This requires a balance between minimising the impact of those outages and the cost and environmental impact of burning fossil fuels. MLL plans to continue this approach and accept the increase in planned outage times.

MLL continues to remove barriers for the rollout of electric vehicles. Most notably through making the discounted controlled electricity tariff available to consumers, which provides a discounted electricity rate, the same as for controlled hot water.

Thanks

Thank you to our consumers. The high level of participation in our consumer survey provided valuable feedback on the business, sponsorships, and investments. I would also like to thank you for your understanding and cooperation during recent weather events, as this enabled more efficient restoration of services.

Finally, I would like to thank the great Team we have at MLL. This year has had its challenges and at all levels in the business the Team has remained engaged and accepted the challenge and worked together to deliver positive outcomes for all stakeholders.

Tim Cosgrove
CHIEF EXECUTIVE OFFICER

Chief Financial Officer's Report

The Group is reporting a significant improvement in both financial performance and financial position for the year ended 30 June 2022, despite the challenges that were faced during the year. These challenges included: the ongoing impacts of COVID; the effect of the war in the Ukraine on supply chains and inflation; and starting the year with the volume of Yealands' wine in tank down 24% on the prior year.

Financial performance

The Group's reported Net Profit After Tax (NPAT) is $14.5 million, a 166% increase on last year's NPAT of $5.5 million. In addition, the Group recognised net unrealised revaluation gains on assets of $31.6 million. Total comprehensive income for the year accordingly was $46.2 million, an increase of 146% on last year's total comprehensive income of $18.8 million.

This improved result has been driven, in large part, by a positive harvest fair value adjustment at Yealands Wine Group (YWG). This reflects the benefits of the strong vintage 2022 harvest from Yealands-owned vineyards. The large revaluation gain recognised in Other Comprehensive Income is due to increases in the value of those same land holdings and is reflecting the investment made in those vineyards over a number of years. Unrealised gains on the value of interest rate swaps were also recognised during the year.

Marlborough Lines Limited (MLL) Parent Company reported a NPAT of $5.9 million, up 2% on the prior year result of $5.8 million and also up on the budget for the year of $4.3 million. The main driver of the improvement of the NPAT result from budget was the receipt of a $1.25 million dividend from YWG. The electricity business largely performed in accordance with budget.

The YWG results have benefited from non-cash gains as required by New Zealand International Financial Reporting Standards (NZ IFRS). A reconciliation between the YWG management accounts and statutory accounts is provided on the next page. Overall, YWG's Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) result per its management accounts of $11.9 million is reflective of a challenging year. YWG's profitability was impacted by a lack of wine to sell and cost inflation, particularly in shipping and dry goods. It was known at the start of the year that it would be a challenging year. YWG faced headwinds but still produced a solid result and has made good gains in some markets and increased sales margins with key customers.

YEALANDS WINE GROUP EBITDA RECONCILIATION	Financial statement note reference	FY22 $m	FY21 $m
EBITDA per management accounts		11.9	14.4
Depreciation reclassified to Cost of Sales	5, 7	(8.6)	(8.2)
Movement in harvest fair value adjustment		7.7	(5.2)
Valuation (impairment)/ reversal to vineyards	5	0.9	(0.9)
EBITDA per NZ IFRS		**11.9**	**0.0**

Note: The Group reports under the New Zealand equivalents of International Financial Reporting Standards (NZ IFRS), which requires adjustments to the YWG results that are not part of ordinary management accounts. These are outlined in the table above.

Balance sheet

Total assets on the Group balance sheet were $672 million as at 30 June 2022, up from $627 million in the prior year. As outlined previously, this increase is primarily as a result of the revaluation gain on YWG's vineyard and winery assets of $29.5 million, along with a revaluation gain on MLL's land and building assets of $5.4 million (prior to tax adjustment).

The amount of Group external term borrowings as at 30 June 2022 was $71.6 million, down from $80.6 million in the prior year. YWG repaid $9 million of external debt during the year and a further $1 million was repaid on the intercompany loan from MLL. YWG has also refinanced its borrowing facilities with ASB, with maturities of between three and five years. As part of this refinance, YWG has secured the first Sustainability Linked Loan for a wine company in New Zealand, which will result in interest savings if sustainability targets are achieved.

Wine inventory has increased from $44.9 million from the prior year to $54.2 million, as a result of the improved 2022 grape harvest volumes, which will allow YWG to meet the national and international demand for its wine over the coming year.

Equity attributable to the Marlborough Electric Power Trust (MEPT), as 100% owners of MLL has increased from $459 million to $503 million during the year (an increase of 10%). As outlined above, this increase is in large part due to the increasing value of the YWG assets and its debt reduction.

Cash flow, capital expenditure and dividends

Group net cash flows from operating activities of $29.6 million were 3% down on the prior year's result of $30.5 million, consistent with the reduction to revenues. There has been a reduction in expenditure on property, plant and equipment, as YWG has reduced its expenditure on new vineyard development, following the completion of the Maher vineyard during the year. YWG now moves into an optimisation period, with irrigation infrastructure and grape variety plantings the focus.

Capital expenditure within the MLL Parent Company was up $1.7 million on the prior year. Major capital projects have been completed during the year, including new 33kV cables down Murphys Road and from Richardson Avenue, down the Taylor River reserve and along Hospital Road. These projects are part of an ongoing programme of work to improve the capacity and resilience of the network.

This year, MLL paid dividends to the MEPT of $1.8 million (2021: $1.8 million). This is consistent with the budgeted $1.8 million dividend for the year.

Gareth Jones
CHIEF FINANCIAL OFFICER

Consumer Q&A

1 Who owns Marlborough Lines?

Marlborough Lines Limited (MLL) is owned by the Marlborough Electric Power Trust (MEPT) which comprises six consumer-elected Trustees. These Trustees hold the shares in MLL for the sole benefit of its current and future electricity consumers.

2 What is the relationship of the Trustees with Marlborough Lines?

The Trustees act as the owner of MLL and undertake the following core shareholder duties:

- Approve the annual Statement of Corporate Intent (SCI);
- Monitor the performance of MLL against the SCI;
- Appoint directors;
- Receive and distribute dividends;
- Review and approve any “major transactions” undertaken by MLL;
- Arrange Trustee elections;
- Maintain and enhance the value of MEPT’s investments.

3 Why does Marlborough Lines need to make a profit?

The Energy Companies Act 1992 requires MLL to operate as a “successful business”. MLL needs to make a profit: first to provide funds for capital expenditure – new power lines, equipment and vehicles – and second to provide for dividends to the MEPT, which in turn makes a distribution to all electricity account holders.

4 What proportion of my electricity bill goes to Marlborough Lines?

After applying the MLL network discount payment, the MLL portion of the average eligible consumer’s total electricity charges is 30% (as at May 2022).

5 Why does Marlborough Lines own the Yealands Wine Group?

MLL has a history of successful investment beyond the immediate Marlborough region. After selling its previous investments in the electricity networks OtagoNet and Horizon Energy at significant gains, MLL looked for investments which would provide an income stream and growth in capital value. In 2015 MLL acquired an 80% share in Yealands Wine Group (YWG), followed by the purchase of the remaining shares over the following two years.

6 What is the actual benefit of the YWG investment to Marlborough’s electricity consumers?

MLL has received more than $20 million of dividends from YWG since acquisition. MLL has in turn paid dividends to the MEPT, which holds the funds for a period before making a tax-free distribution to eligible electricity consumers. There has also been significant uplift in the value of YWG’s assets (mainly vineyards) since acquisition.

7 Does Marlborough Lines provide sponsorship in the wider community?

MLL provides sponsorship to a wide range of youth, regional and environmental events and initiatives. In the Our Community section (see page 36) we summarise our support to the community this year which totalled some $365k (last year $383k).

8 Do consumers in Marlborough pay higher line charges than in other parts of New Zealand?

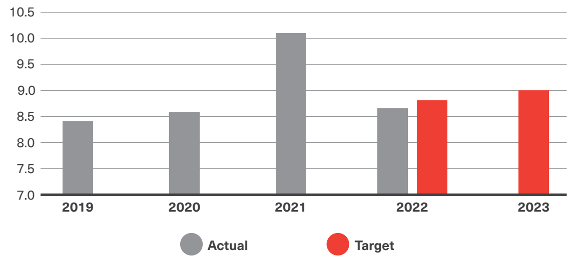
Despite Marlborough being a rugged geographical region with a small population and a low average number of electricity consumers per kilometre of line, MLL's charges compare favourably with other similar rural-based networks on an after-discount basis.

9 Where can I find more information?

Our website contains a wealth of information of interest to our consumers and other stakeholders. Included on our website is information about the Company, its history, management and annual reports as well as electrical safety, energy efficiency, network pricing, fault information and network status.

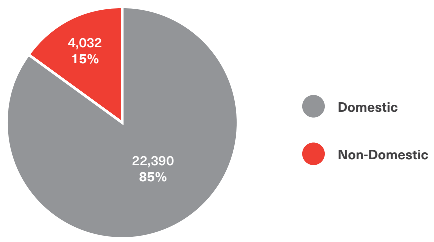
See www.marlboroughlines.co.nz

Discounts Paid to Marlborough Lines Consumers ($m)



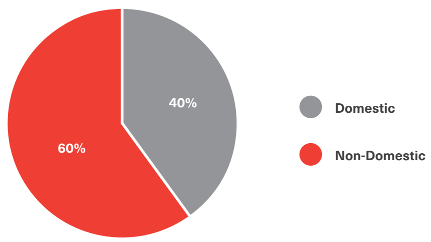
Total discounts of $8.7 million (excluding GST) were paid to consumers.

Number of Network Connections (ICPs)



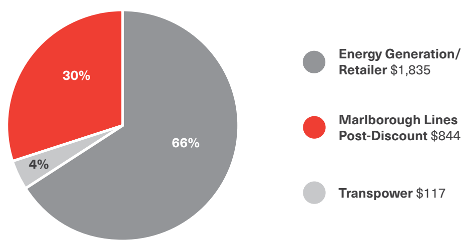
85% of MLL's network connections are domestic consumers.

Electricity Consumption by Category



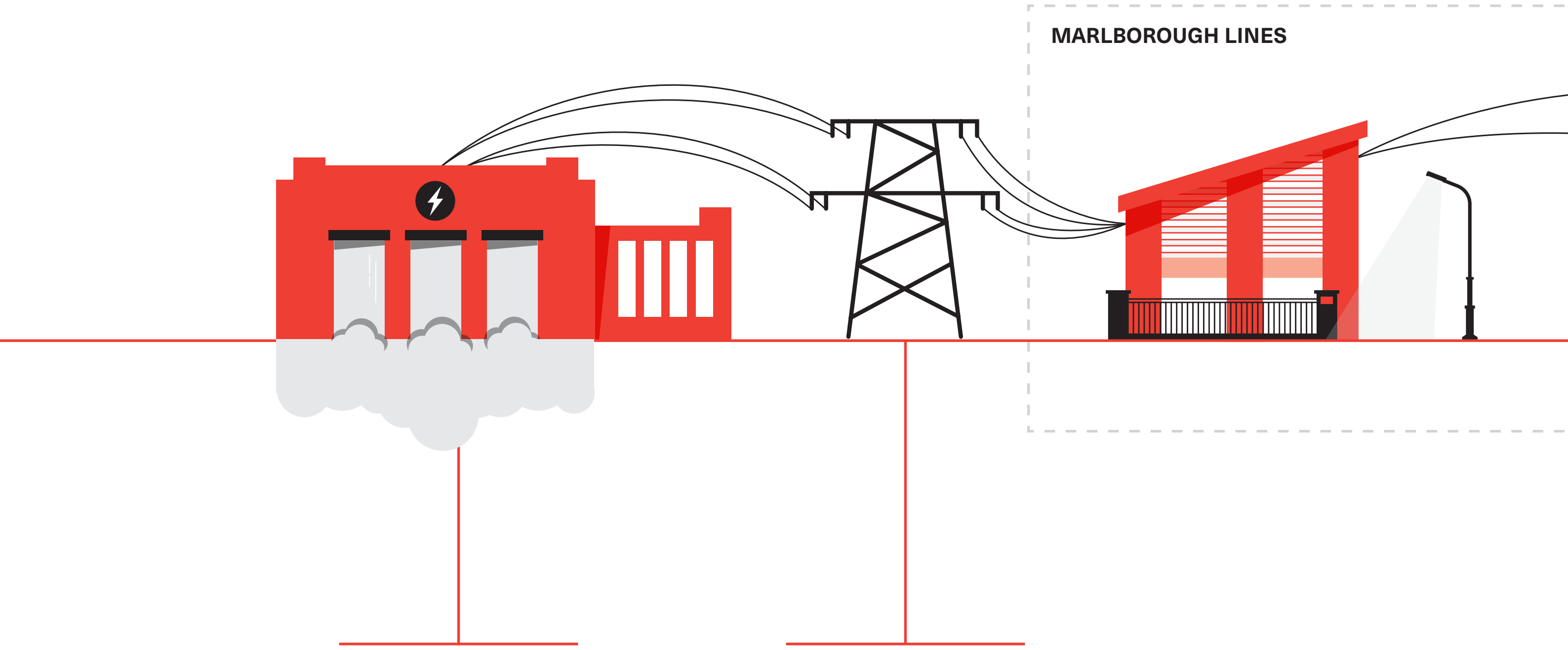
Despite making up only 15% of MLL's network connections, non-domestic consumers use 60% of the region's electricity.

Allocation of the Average Annual Electricity Account for a Typical Domestic Consumer



MLL's charges on a post-discount basis comprise 30% of the total electricity account for a typical domestic consumer.

The Electricity System

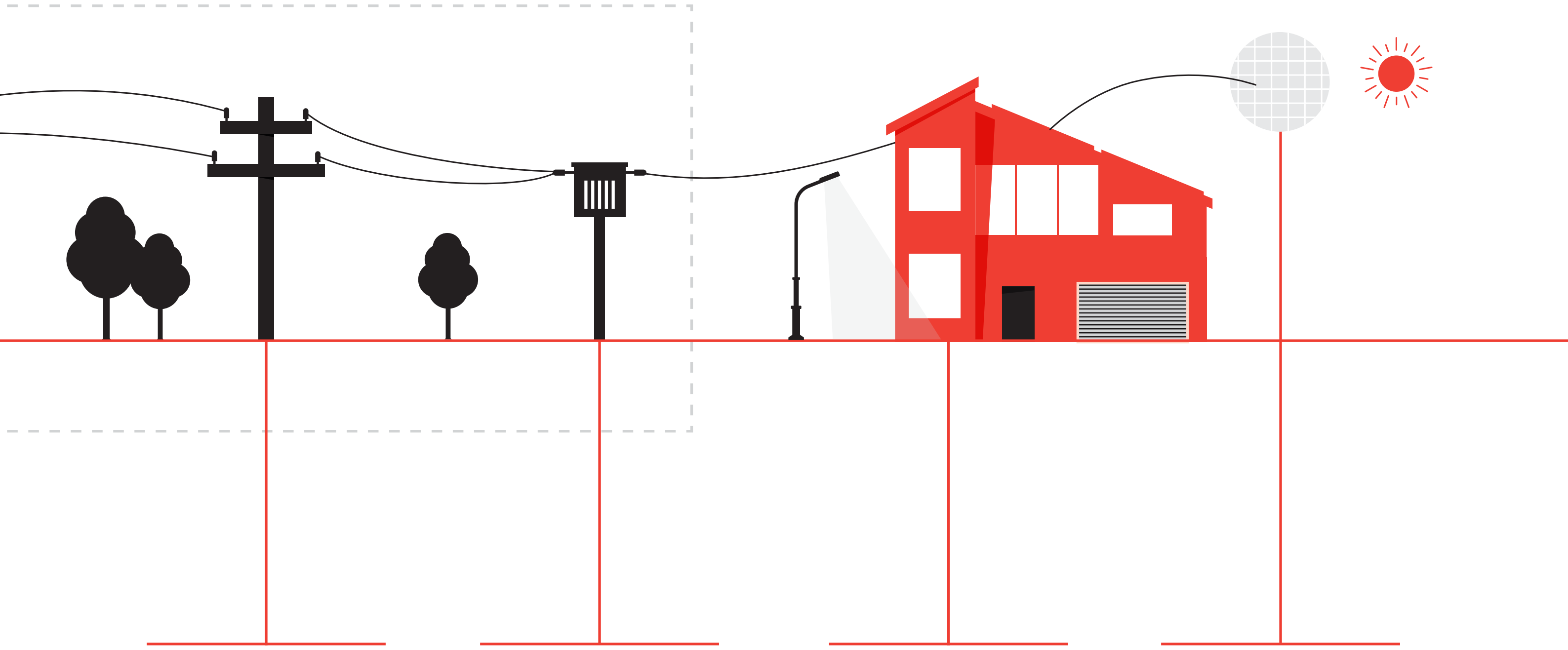


Generation stations

New Zealand's Electricity is mostly generated by hydro-electric power stations in the South Island. The North Island has hydro, thermal and geothermal plants. Transpower's Direct Current link transmits electricity between the North and South Islands.

Transmission grid

Transpower owns and operates the National Grid. This consists of transmission lines and the equipment used to connect the major generators with distribution networks (like Marlborough Lines) via Grid Injection and Grid Exit Points respectively.



Distribution network

Marlborough Lines owns and operates the distribution network within Marlborough. We have a network of lines and cables in excess of 3,391km, including an extensive 33kV network with 16 zone substations. We also operate a business unit for the construction and maintenance of lines.

Distribution transformers

Marlborough Lines has more than 4,000 distribution transformers which convert 11kV electricity into 400/230V. The distribution lines deliver the electricity to the point of supply at the consumer's installation.

Electricity consumer

The final part of the 400/230V lines from the street to the house is generally owned by the property owner, with the occupant of the property the electricity consumer.

Distributed generation

Increasingly consumers are installing distributed generation such as photovoltaic panels which can export excess electricity back into the network. Connections of distributed generation (generation connecting directly to distribution networks) is also increasing.

Our Assets

Reliability

The 2022 financial year proved to be a challenging year for network reliability, with unplanned System Average Interruption Duration Index (SAIDI) of 178 minutes, against a target of 85 minutes. This was mainly due to the July 2021 storm and flooding event which attributed a total of 100 minutes to the year's total. With this major event excluded, the reliability figures are encouraging and supportive of the programmes Marlborough Lines Limited (MLL) has put in place.

MLL's fault response to the July 2021 storm was significantly impacted by the state of the roading network out to the fault locations. MLL had to utilise both helicopters and barges in order to get people and equipment on the ground to restore supply which in some cases greatly extended outage durations.

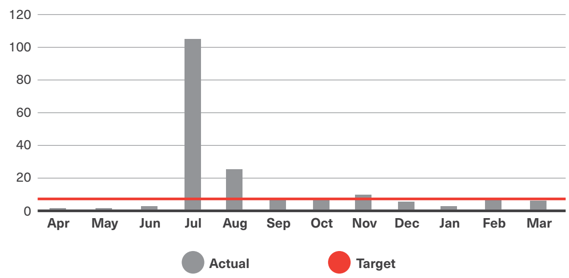
While all customers that were able to be relivened had their electricity supply restored within a week (most within 24 hours), there was a resulting series of work to restore the quality of the network to what it was prior to the weather event. While not within the reporting period, a second major storm and flooding event occurred in mostly similar areas in August 2022, which has had a similar, if not larger, impact.

MLL's planned reportable SAIDI for the year was 64.61 minutes in line with its target of 65 minutes. MLL continues to utilise its fleet of mobile generators in certain cases for planned work to lessen the impact to customers, although strict criteria must be met before these are approved for use.

Recent capital expenditure continues to provide an improvement in network reliability with several remotely controlled devices coming online. These allow the network to be switched remotely to a more granular level to isolate the faulted areas and minimise impacts to MLL's customers.

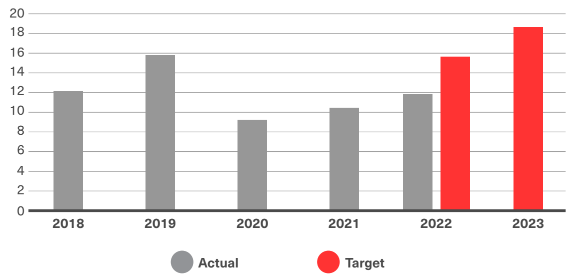
With the increase in large weather-related events, and the accompanying damage to both MLL's assets and the roads used to access them, MLL is reviewing ways of increasing resilience to those parts of the network. The reality is, however, that outages that occur in the remote parts of the network, and especially the Marlborough Sounds, are now likely to be of longer duration than in the past.

Unplanned Outages (Minutes lost per month per average customer)



Unplanned outages during the year averaged 178 minutes, impacted by the July 2021 storm and flooding event.

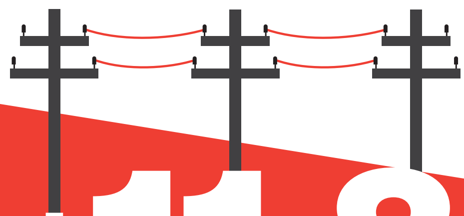
Capital Expenditure ($m)



Capital expenditure of $11.8 million was 24% below target of $15.6 million. The delivery of the capital programme was impacted by COVID-19 related delays and fault response prioritisation.

178
minutes

Unplanned SAIDI up 120% on prior year. The current year includes the impact from the July 2021 weather event.



$11.8
million

Capital expenditure up 13% on prior year.

Projects

MLL strives to continually improve and future proof its network to increase resilience and to provide for the changing needs of its customers, while managing its existing assets to ensure they are replaced or maintained at the optimal point in their lifecycle.

This year has seen a continuation of several major projects on the 33kV system, a programme that MLL embarked on in 2020 with the aim of meshing parts of this system. Meshing creates a system that in the event of a fault will maintain the supply seamlessly with no loss of supply to customers. Given that the 33kV system forms the backbone of the network, it is paramount to have this operating as securely and reliably as possible.

Last year, the first of these projects was completed (circuit upgrade between Waters and Redwoodtown substations), with another two projects from this programme scheduled for completion by October 2022.

The Murphys Road project has involved installing new cables along Murphys Road and rearranging connections to provide discrete circuits from point to point. A similar project along Hospital Road, completed at the same time, provides for direct connection between substations to form part of the meshed system.

The remaining two projects in the programme are currently in detailed design and planning, with construction due to start in the first half of 2023. Woodbourne substation will be upgraded with new indoor 33kV switchgear, and the outdoor switchyard removed. This will not only modernise the site but will also facilitate for the connections required to create the meshed arrangement.

The other project requires an upgrade of the overhead line between Tapp (Renwick) substation and Woodbourne substation. New poles and heavier conductor will be installed which will future proof against expected load increases and power flows when the system is meshed.

Another project completed this year is the installation of a new radio site at Whatamango Bay in Picton. MLL operates an extensive radio network that is used for remote control of substation and field devices, as well as the voice radio system. The nature of the terrain in Marlborough makes it difficult to provide coverage to all areas, and the construction of this site provides greater coverage for existing devices as well as making it possible to install new devices, such as remotely controlled switches, in the area.

Many smaller projects have also been completed as part of MLL's asset replacement programme. MLL uses criteria such as condition, criticality (impact to customers), and safety to determine the priority for replacing assets in each programme.

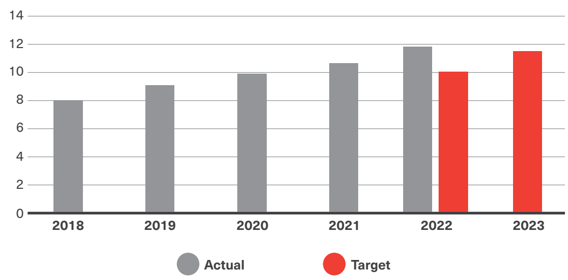
Maintenance

The team of MLL condition assessors have in the past year met the target for condition assessment of poles and overhead assets and have inspected over 7,500 of the 31,000 poles that MLL owns. MLL inspects all of these assets over a 5-year cycle, although some assets are inspected yearly in accordance with our Public Safety Management System.

Management of vegetation continues to present many challenges. From the storm related issues where falling trees strike the lines, to forestry plantations planted too close to lines, and day-to-day issues such as managing trees planted in inappropriate places i.e., directly under lines and capable of growing into them. MLL's approach is to target trees for removal based on the risk they pose to the network while meeting the obligations under the Electricity (Hazards from Trees) Regulations 2003.

This year, MLL has patrolled over 1,500km of lines which equates to around 55% of its network, and includes all of its 33kV network. MLL has continued with its education programme on planting around power lines, through advertising, information on MLL's website, and community programmes such as the power line friendly planting project at Grovetown School.

Maintenance Expenditure ($m)



Maintenance expenditure of $11.8 million was 17% above target of $10.1m, with higher fault response costs.

65
minutes

Planned SAIDI up 14% on prior year. Impacted by quantity and type of works completed.

$11.8
million

Maintenance expenditure up 11% on prior year.

Technology and Innovation

Substantial change is occurring in the electricity industry, largely due to technological progress and concerns about climate change. Combined, these changes are altering consumers' electricity needs and impacting on Marlborough Lines Limited's (MLL) network.

Increased uptake of Electric Vehicles (EVs)

The number of EVs in Marlborough continues to increase (refer to the graph on the right), and MLL expects this will increase significantly in coming years. Provided that the vehicles are largely charged frequently and/or off peak, the impact on the network may be marginal. MLL is encouraging EVs to be connected to the controllable load channels, and monitoring impacts on the network as EV uptake increases.

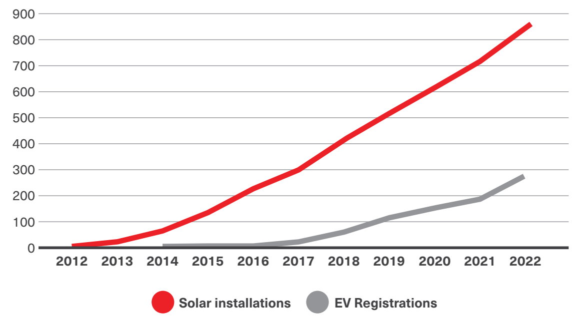
Increased residential solar installations

Residential consumers continue to install solar (PV) arrays on their homes. The number of small- and large-scale distributed generation systems, particularly solar, is continuing to increase (refer to the graph on the right). MLL is encouraging solar installers to use technologies that will support a large amount of solar generation while maintaining power quality.

Increased medium to large scale (10kW) embedded generation network connections

A number of large scale solar plants have applied for resource consents in Marlborough. MLL works with each developer to design solutions that efficiently maintain network reliability, safety, and power quality. As per its Technology and Innovation targets, MLL (through its subsidiary, Energy Marlborough Limited) intends to complete an 850kW solar plant in April 2023, and has submitted resource consent applications for further plants in the Seddon and Ward areas.

Cumulative Number of Marlborough PVs and EVs



The number of PV solar installations on our network and EVs used in Marlborough is increasing, with 18% and 80% growth this year respectively.

7.8 MW

Installed solar, hydro and wind generation capacity on our network (medium to large scale >10kW).

3.4 MW

Installed solar capacity on our network (small scale <10kW).

Industrial consumers looking to decarbonise their processes

These include consumers using process heat from non-renewable fuel types, and agricultural customers using diesel for irrigation purposes. These consumers are looking to change to cleaner technologies, such as electricity. Due to the remote location of some of these consumer installations, it is challenging to supply from the existing network.

Major transport services moving to electricity

KiwiRail has ordered two diesel electric ferries that will approximately double the Picton area's peak load from late 2025. Air transport services are looking to introduce electric planes. MLL is supporting these changes by developing efficient long term network development plans.

Consumers wish to store energy in batteries and EVs and trade electricity across MLL's network

There are opportunities to improve network efficiency through these technologies.

These changes require substantial support from MLL as new connections and changes to existing connections are requested. MLL investigates each application for a change in network usage in order to ensure that regulatory, safety and power quality requirements are met.

Technology on the electricity supply side is also changing due to technology improvements and in response to these changing customer needs, MLL is investigating and working on technologies.

Distributed Energy Resource (DER) management systems

MLL is working with electricity industry participants, to consider the likely impacts from the changes in customer technologies and options for its management. MLL will embrace and adopt new technologies when it believes there will be benefit to the network, and/or consumers. The management of DER will be crucial to maintaining acceptable power quality and reliability, and potentially avoiding significant investment in network capacity upgrades.

Monitoring and control technology

The reconfigured network requires replacement of aging electrical protection, control and communications equipment. MLL is working through a multi-year project to upgrade these systems to the latest technology. These upgrades will result in improved monitoring and control of Marlborough's electricity distribution system, enabling MLL to detect and take appropriate actions as issues occur on the network.

Advanced Distribution Management System (ADMS)

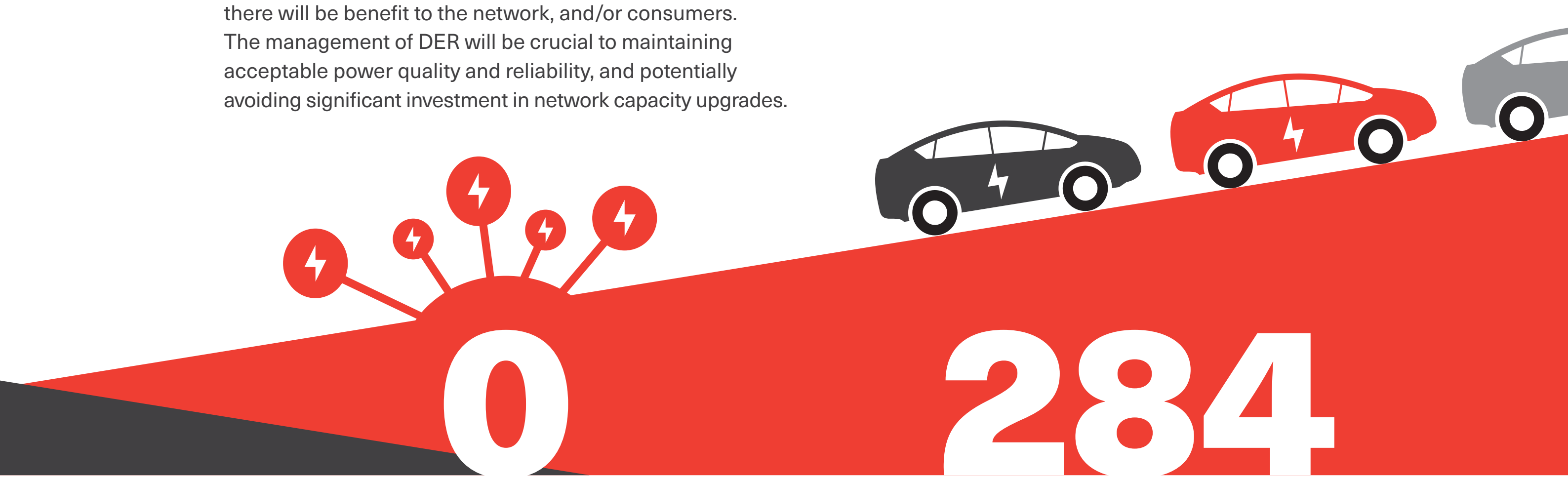
MLL is planning to replace its aging SCADA (Control Room network monitoring and control systems) over the next few years. An ADMS will be put in its place to improve network monitoring, automation, control and management. ADMS systems have advanced systems for the management of new customer technologies.

Smart switches

In order to reduce the outage times after remote network faults have occurred, MLL is working through a multi-year programme to install remote controlled smart switches to reduce the number of customers effected by some network faults and improve monitoring of the network in these locations.

LV monitoring technologies

To improve our understanding of the impact of EV and PV technologies, MLL is trialling low voltage monitoring technologies within its network.



0 solutions

Number of non-network solutions deployed. Refer to the Statement of Service Performance on p110 for further information.

284 EVs

Number of EVs registered in Marlborough.

Our Investments

Marlborough Lines Limited (MLL) holds an investment portfolio that includes 100% of Yealands Wine Group (YWG), 50% of Nelson Electricity Limited (NEL) and cash on hand. During the year to 30 June 2022, MLL capitalised its subsidiary Energy Marlborough Limited (EML), this will be the company with which MLL undertakes its investments in renewable electricity generation.

Yealands Wine Group Limited

YWG is a company based in Seaview, Marlborough with 1,085 hectares of owned planted vineyard and a winery with consented processing capacity of 27,000 tonnes. It is one of New Zealand's largest wine exporters, with global distribution, including strong market presence in Europe and the USA.

In 2022, YWG continued to progress its long-term strategy of premiumisation with a continued focus on supporting the vineyard with innovative sustainability and biodiversity initiatives. The short grape supply from the 2021 vintage provided YWG with a challenge to build margins on the limited wine stock. With around 24% less wine a similar operating profit was achieved compared to the prior year.

Financial sustainability

YWG has continued to focus on its financial sustainablity and improving long-term returns. It was able to reduce its total debt by $10 million during the year and also paid an unbudgeted $1.25 million dividend through to its shareholder, MLL, in June 2022.

The stronger balance sheet position and a confidence in FY23 wine sales has provided a platform for YWG to continue to invest in key capital projects. These projects will further strengthen the balance sheet and secure future grape supply.

Sauvignon Blanc success on the global stage

The reduced grape supply of the last harvest in Marlborough provided an opportunity to accelerate YWG's premiumisation strategy, creating an environment to maximise price, brand and market mix. Major packaging re-brands and updates were completed during FY22 for each of The Crossings, Babydoll and Yealands Reserve brands. In FY22 YWG doubled branded volume into the USA and achieved double-digit growth in the UK.

YWG received the International Varietal trophy for 'International Sauvignon Blanc' at the International Wine Challenge 2022 for the Yealands Estate Single Block S1 Sauvignon Blanc 2021.

Vintage 2022 (V22)

V22 saw the region return to long-term grape yield averages. The season brought consistent winter rainfall, helping to ensure canopy growth and reasonable flowering, while a wet warm summer contributed to bunch and berry weights. The wetter weather at the start of harvest did not significantly impact YWG's sloping coastal Seaview Vineyard. As a result, clean, ripe grapes were harvested at optimum yields.

The arrival of the Omicron COVID-19 variant into New Zealand at the start of V22 was a concern across the region. YWG was prepared with procedures in place to minimise the impact. Despite the added complexity, YWG achieved its largest ever intake of grapes into the winery, close to its consented capacity. This was a combination of YWG's own grapes, contract grower partners supply and contract winemaking. Maximising capacity through the winery reflects favourably in the cost of wine for V22.

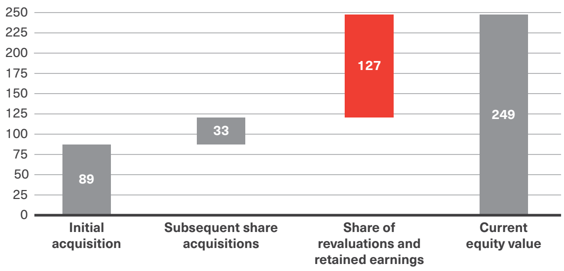
▲ Award-winning Yealands Estate Single Block S1 Sauvignon Blanc 2021.

Beyond 2022

YWG will continue to implement its strategic plan, focusing on premiumisation, increasing production and being a leader in sustainable winemaking. The first crop of grapes will be harvested from the newly developed Maher vineyard in FY23, allowing for an increase in grape volumes and reducing the cost of wine per litre. Investment will be made into optimising vineyard irrigation and ensuring the varietal mix matches the future market demand.

In August 2022, MLL announced it was seeking a strategic partner to invest in YWG. This would allow the shareholder to pursue opportunities in renewable energy and electrification as part of its 'Energise Marlborough' strategy. The partnership would aim to accelerate YWG's expansion and premiumisation plans in key markets, maximising the potential of the wine company.

Yealands Increase in Book Value Over Seven Years ($m)



MLL has invested $122 million to acquire the equity of YWG, which has a book value of $249 million as at 30 June 2022.

Nelson Electricity Limited

NEL delivers electricity to the city of Nelson and has been owned and operated jointly by MLL and Network Tasman since 1996. Each company owns 50% of the issued shares and appoints two directors to the Board.

Another safe, reliable year

As a privately owned electricity distribution business, NEL's earnings are regulated by the Commerce Commission. NEL achieved a Net Profit After Tax of $1.4 million for the year, ahead of budget. From these profits, it paid a dividend of $1.1 million, of which MLL receives half, in proportion with its 50% shareholding. In addition, NEL also recognised revaluation gains on its land and buildings of $0.84m, of which half is recognised through MLL's group revaluation reserves. Network reliability, though below NEL's industry leading standards, was still strong at 51 SAIDI minutes for the year, related to nine unplanned faults. There were no lost time health and safety incidents on the network during the year.

Upcoming prospects

A new 33kV/11kV zone substation was constructed in 2014, with four dedicated 33kV supplies, placing NEL in a good position going forward, with only routine expenditure projected. NEL will continue to operate as an efficient lines business with industry leading reliability.

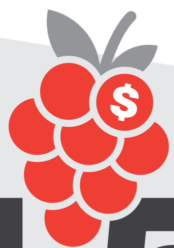
Energy Marlborough Limited

EML was incorporated on 20 May 2021 and issued $500,000 of shares in August 2021 to help fund its first foray into solar electricity generation. EML's first project is the design and construction of an 850kW solar farm at MLL's Taylor Pass depot, which will have the capacity to power around 175 homes each year. Construction is expected to commence in late 2022 and the solar farm is expected to be completed by April 2023.

The Taylor Pass project is the first of a number of planned renewable energy generation projects, with consent applications lodged for larger solar farms near the YWG winery at Seaview and another at Ward.

Cash holdings

As at 30 June 2022, MLL held $13.4 million of funds in cash or on term deposit with two major New Zealand trading banks. Interest rates have been low but rising over the course of the year with a return on MLL's funds averaging 1.4%.



1.54 percent

Post-tax cash return on investments (2021: 0.92%). Positively impacted by $1.25 million dividend from Yealands.

$1.8 million

Dividends received from NEL ($0.55 million) and Yealands ($1.25 million).

Investments income summary

Total cash flows generated by MLL from all investments, including management fees and interest received for the year (but excluding capital gains), was $2.6 million. This compares to $1.5 million for the prior year, with the major difference being the dividend received from YWG of $1.25 million.

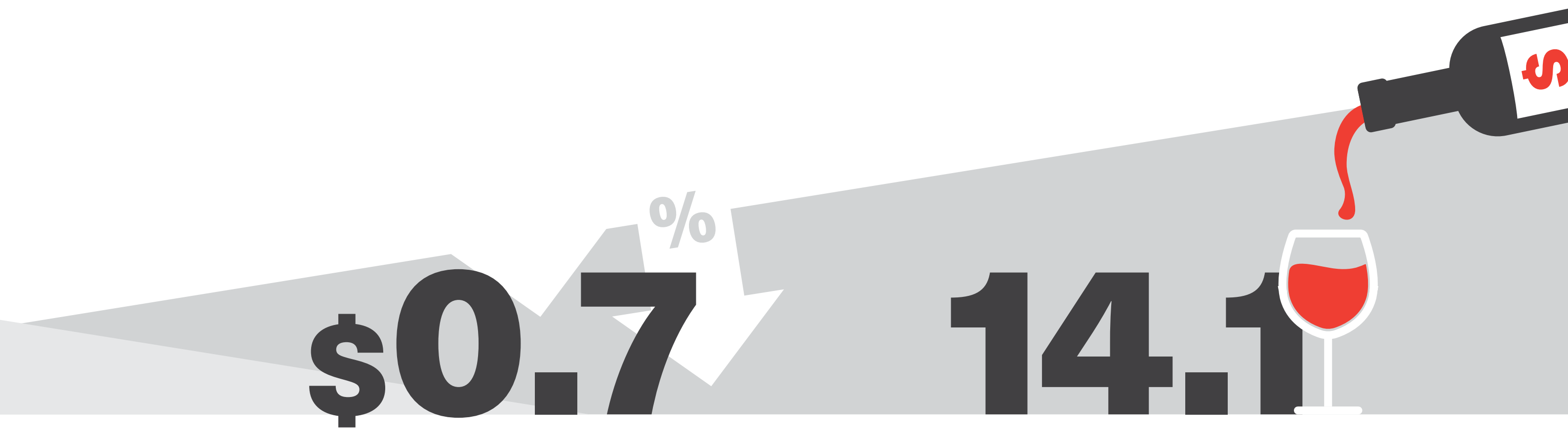
Since the initial investment in YWG in July 2015, there have also been substantial unrealised capital gains, in addition to the cash return. This uplift has not been included in the table below, but should be factored in when considering the overall level of return on MLL's investments.

A summary of cash flows generated from investments is shown in the table below.

Accounting for our investments

As MLL has control over YWG, it is treated as a fully consolidated subsidiary in the MLL financial statements. MLL has significant influence over, but not control of, NEL and therefore NEL is treated as an associate company. Further information on the accounting treatment can found in Note 9 of the financial statements.

	2022	2021	2020	2019	2018
SUMMARY OF CASH FLOWS FROM INVESTMENTS					
Cash Flows from Investments ($m)	2.6	1.5	1.8	7.2	7.1
HOLDING VALUE ($M)					
Nelson Electricity	16.2	15.6	15.5	15.5	15.5
Yealands Wine Group	131.0	132.0	137.0	122.0	122.0
Cash and term deposits	13.4	11.0	5.8	19.3	17.8
Total value of investments	**160.6**	**158.6**	**158.2**	**156.8**	**155.3**
Cash Flows Generated from Investments	1.60%	0.95%	1.13%	4.62%	4.60%
ROI (post-tax)	1.54%	0.92%	1.05%	4.48%	4.34%



million

Interest received down 5% on prior year. Inter-company loan to Yealands reduced since prior year.

percent

Rate of return per annum on equity invested in YWG since acquisition.

Yealands Wine Group Limited

Average amount invested

$132 million

Amount returned

$1.7 million

Returns through

- Dividends
- Interest income
- Shareholder funds growth

Land under vineyard

1,085 hectares

Grapes processed

27,070 tonnes

Wine sold

$87.0 million

Nelson Electricity Limited

Average amount invested

$15.9 million

Amount returned

$0.6 million

Returns through

- Dividends
- Shareholder funds growth

Electricity distributed

142 GWh

Network connections

9,285

Revenue

$9.3 million

Energy Marlborough Limited

Average amount invested

$0.5 million

Amount returned

$0.0 million

Returns through

- ✗ Dividends
- ✗ Shareholder funds growth

Electricity distributed

0 GWh

Owned capacity

0 MW

Revenue

$0.0 million

Bank Holdings

Average amount invested

$15.3 million

Amount returned

$0.2 million

Returns through

- ✓ Interest income

Our People

We are excited about the progress we are making towards our strategic objective to provide a workplace where our people are valued, engaged, and inspired to deliver positive personal and Company outcomes for the benefit of all consumers.

Highlights for the year include:

- Our restructure created the opportunity for 14 employees to change roles internally;
- Two Trainee Line Mechanics achieved their NZ Certificate in Electricity Supply (Line Mechanic Distribution) Level 4, enabling them to work as fully qualified Line Mechanics;
- Three employees are participating in a 12-month Advanced Leadership Development Programme facilitated by MainPower;
- We recruited 26 new employees into Marlborough Lines. Ten of these recruits have been into newly created roles including: Business Systems Manager, Human Resources and Health and Safety Coordinator, Junior Draughtsperson and Team Leader – Traffic and Civil;
- We employed eight trainees across the various trades;
- We continue to offer the option of a nine-day fortnight and currently have nearly 30% of staff working under this flexible arrangement;
- We have 13 staff working less than 40 hours per week under an individual flexible arrangement.

Trainee programme

Recruiting fully qualified Line Mechanics continues to be challenging so a pipeline of trainees is crucial to maintaining optimum staffing levels. We currently have seven trainee Line Mechanics working towards their qualifications and we will continue to recruit trainees each year for Line Mechanic, Cable Jointer, and Electrician positions.

Developing our people

With the tight recruitment environment and a significant number of employees across various roles in the business due to retire over the next five years, succession planning is crucial. As a result, we are developing our people to enable them to take advantage of future internal opportunities.

- Four employees are working towards their NZ Diploma in Engineering;
- One employee is attending University of Canterbury full-time, progressing towards a Bachelor of Commerce.

Staff-related initiatives

We conducted an engagement survey across all employees in September and now have a baseline result to improve on.

During the year we introduced a Health and Wellbeing benefit to encourage employees to buy something for improvement of their health and wellbeing. So far, many employees have claimed the benefit with some putting it towards club memberships, mountain bikes and various hobby-related activities.


296

total

Total group employees, including Marlborough Lines, Yealands and Nelson Electricity.

70

percent

Proportion of Marlborough Lines employees who are trade or tertiary qualified.

Youth education and employment

Youth education and employment is a key focus and during the year:

- We supported the Graeme Dingle Future of Work Conference and the Marlborough Boys' and Marlborough Girls' College Careers events;
- We continued our programme with the Marlborough Youth Trust (MYT) to give young Marlburians a step-up and gain work experience through a six-month programme working at MLL. In 2022 we are taking on our third MYT candidate in the second half of the year, for a six-month contract;
- We employed four school leavers into trainee or apprentice roles as Line Mechanics, Arborists and Junior Draughtsperson.

Health and Safety

The health, safety and wellbeing of our staff and the public is always our priority. We continually work to improve how we do things so we can achieve better outcomes for all.

For the year ended 30 June 2022, near miss reporting related to critical risks was 50% higher than the previous year, and 60% higher for all risks which is a positive sign that our reporting culture is improving.

We are building our critical risk management framework and competency and have reached out to other electricity distribution businesses to learn from their experiences and inform our approach. Empowering our frontline teams to be proactively involved in critical control verification and improvement planning is a key focus for the ensuing year.

Building trust and a culture of openness is an ongoing process we are committed to. During the year the directors engaged with our team in a variety of ways including informal "get to know us" profiles on our electronic noticeboards; attending our annual Safety Day; and worksite visits. Our Senior Leadership Team undertake worksite walkabouts to observe and learn from our frontline teams and participated in various forums and focus groups with employees throughout the year. We have an open-door policy and encourage feedback.

We know that to do better some new approaches are needed. In the coming year we are participating in an innovation project supported by the WorkSafe Innovation Team, to better understand what transparency means and looks like at all levels in our business, from governance to the frontline, and how we can be more transparent to build trust, strengthen relationships and foster a healthier work culture. We are looking forward to working through this process and ultimately sharing our learnings with others.

Public safety

Our biggest public safety risk continues to be vehicles crashing into power poles. While we cannot influence how the public drive, in each instance we assess whether the location of the pole contributed to the incident and identify if there is anything we can do to reduce the risk.

We have an extensive asset condition assessment and maintenance programme in place to ensure that our network assets are safe and do not pose any risk to the public or public property.

Our new and improved website launched during the year provides information for the public on how to keep safe around our network and functionality to initiate a range of our safety services online. We also began running safety advertisements on digital platforms and including safety messages in bi-monthly newspaper adverts.

years

Average length of service of Marlborough Lines employees.

trainees

The number of trainees employed by Marlborough Lines during the year.

Our Community

We're here for our community, 100%, no matter what. From our team of 166 working every day to keep our network safe, reliable, and ready to meet Marlborough's future energy needs to our support of local initiatives and events that boost regional growth and make Marlborough a better place to live. We are proud to serve our Marlborough community.

Throughout the year we continued to support regional growth through sponsorships that align with our mission to **Grow Marlborough Together**. Our sponsorship budget comprises up to 1% of our annual revenue, and this year amounted to $365k, which was distributed amongst 30 worthy initiatives and events (see "Our Sponsorships" on p37).

We have several long-standing and long-term sponsorships in place. Additionally, we support one-off requests where there is close alignment with our sponsorship criteria and aspirations, which during the year included AA Defensive Driving courses, the Grovetown School planting project and sponsorship of a Unistellar eVscope at Omaka Observatory.

Smarter, safer drivers

Marlborough Lines (MLL) fully funded NZTA approved AA Defensive Driving Courses for 160 Marlborough youth. Forty courses were provided to each of Marlborough Girls' College, Marlborough Boys' College, Queen Charlotte College, and the Marlborough Youth Trust.

Most of our team are out on the road every day, often driving long distances to get to and from remote parts of our network. Driving is a critical risk and improving driver safety is a key focus for us. Supporting our younger drivers so they are equipped with the skills, knowledge, and confidence to be smarter and safer on the road, benefits everyone.

Grovetown School planting project

We teamed up with the Grovetown School to plant more than 400 powerline friendly plants, replacing a huge hedge that was growing dangerously close to high voltage power lines.

While the hedge was a community landmark, ultimately the financial savings of not having to continually trim the hedge helped the school decide to allow MLL to remove the trees.

Students had an opportunity to work together and create a design concept, including some exciting features for the school bike pump track.

While the full impact of the landscaping will not be apparent for a few years, in time MLL hopes it will become an excellent example of what can be achieved with powerline friendly planting.

sponsor

For the Marlborough Lines Stadium 2000 since 2006.

thousand

Sponsorship and donations (2021: $383k).

Omaka Observatory

Omaka Observatory is the first and only publicly accessible observatory in the Marlborough region. The observatory is a charitable trust and offers free astronomy tours to all children in Marlborough as well as a Scopes in Schools project. Astro-tours and star parties are available to the public and help to fund bringing school groups into the observatory. An Astro-tour includes a live presentation where tour guides point out stars, planets, and constellations in the night sky, followed by use of the telescopes and VR suite.

MLL sponsored a Unistellar eVscope which is a completely electronic telescope. The technology is unrivalled. It is controlled using a phone or tablet and accumulates light in real time to create stunning deep sky images. This allows the operator to see objects such as nebula, clusters, supernova remnants, other galaxies, and more. The telescope is used at all the Observatory's school engagements with just over 300 Marlborough school children having accessed it to date. It is also unique from an accessibility perspective as a student in a wheelchair, for example, can control and access the scope from a tablet.

Unistellar runs a citizen science program which Omaka Observatory has involved school groups in. This includes exciting collaborations with scientists around the world on projects such as exoplanet detection, asteroid occultations, planetary defense, and comet observations.

Our consumers support our sponsorship strategy

Our annual consumer survey showed that 87% of our consumers are satisfied or very satisfied with MLL's overall performance (2021:89%).

There was strong support for MLL's sponsorship of community activities, with over 81% of respondents in favour. Sponsorships targeted at the environment and social good activities (education and charitable organisations) were the most supported.

Our sponsorships

Youth education and employment

- Defensive Driving Courses for Marlborough Youth
- Karearea: Falcons in Marlborough Schools Programme
- Marlborough Colleges Tertiary Study Awards
- Marlborough Girls' College Stars Programme Camp
- Marlborough Heritage Education Programme
- Marlborough Lines Graduate Development Programme for Electrical Engineers
- Marlborough Lines Summer Internships
- Marlborough Lines Young Eagles
- Marlborough Riding for the Disabled
- Marlborough Youth Trust CACTUS Programme
- Marlborough Youth Trust Youth Employability Programme
- Maori Tertiary Study Scholarship
- School Start First Impressions Marlborough
- Science and Technology Celebration
- University of Canterbury – Electric Power Engineering Centre

Regional projects and events

- Blenheim & Picton Christmas Parades
- Garden Marlborough
- Havelock Mussel Festival
- Life Flight Community Partner
- Marlborough Business Excellence Awards
- Marlborough Foodbank
- Marlborough Lines Stadium 2000
- Marlborough Wine and Food Festival
- Omaka Observatory
- Picton Maritime Festival
- St John Marlborough

Environment

- Grovetown School Powerline Friendly Planting
- Marlborough Sounds Restoration Trust Wilding Pine Control Programme
- Moetapu Community Association Mt Cawte Deer Control Programme
- Pine Valley Wetland Restoration Project

$40 thousand

Tertiary grants awarded to eight students (2021: $15k). A change in approach to sponsorship in 2021 will mean ongoing three year support.

87 percent

Proportion of consumers surveyed that rated their satisfaction with Marlborough Lines' overall performance as either satisfied or very satisfied.

Our Environment

Marlborough Lines Limited (MLL) will play an important role in Marlborough's efforts to electrify transport and industry, while decarbonising existing non-renewable fuel use.

As discussed in the Technology and Innovation section, more consumers are purchasing hybrid and/or fully electric vehicles, connecting distributed generation (e.g., solar) to their homes and MLL's network, and larger consumers are looking to reduce their usage of non-renewable fuel supplies (e.g., process heat demand supplied by burning diesel and/or coal).

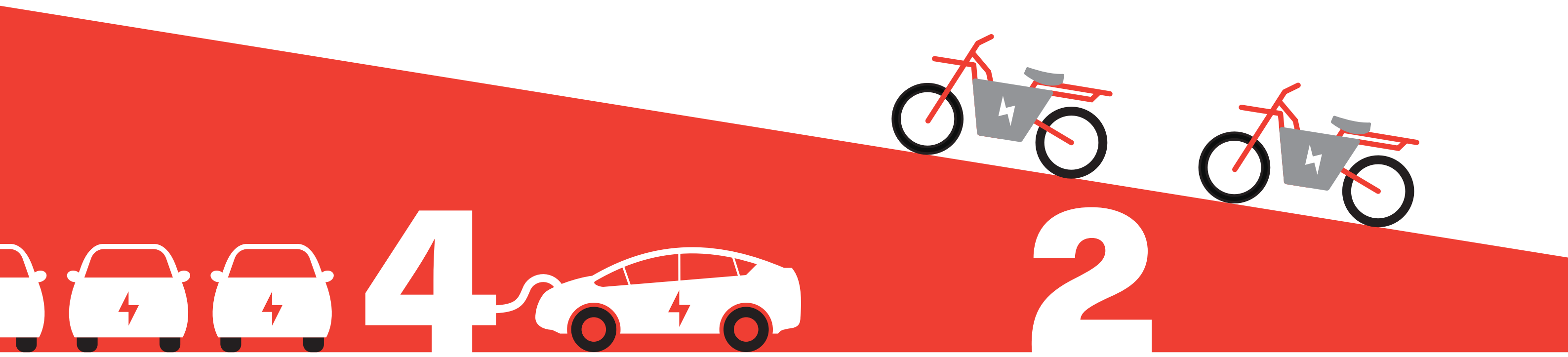
MLL's network needs to be constructed and managed in a way that facilitates consumers drive to electrify and decarbonise. This means having sufficient capacity available for new connections (and increases in demand from existing connections), along with maintaining a high level of supply reliability.

MLL has engaged with large consumers to better understand their current and future network connection requirements and this information is used in our network planning and forward capital expenditure programme. This is challenging on a network such as MLL's, where there is only one grid connection point to Transpower's transmission network, at Springlands in Blenheim, and MLL's network radiates out long distances to very remote and lowly populated areas.

One example where MLL is tackling this challenge is in the Wairau Valley west of Wairau Valley township, where vineyards have continued to spread further up the valley, and there is little remaining capacity. Whenever MLL has replaced poles up the Wairau Valley it has also been upgrading the insulators so that the network is capable of being supplied at 33kV, rather than the current 11kV. MLL is currently in the planning stage for building a 33kV/11kV zone substation, which is a major investment decision. Part of this investment decision requires an understanding of future demand in that area and a willingness for those that will benefit most from the increased capacity to help fund the investment.

The completion of a zone substation further up the Wairau Valley will significantly improve network capacity in that area and allow vineyards to either avoid installing diesel pumps for irrigation, or replace already existing diesel powered equipment.

MLL also looks to support other environmental initiatives in the Marlborough region as part of its sponsorship programme. Two such initiatives that we have chosen to support this year include the Pine Valley Wetland Restoration Project and the Mt Cawte Deer Control Programme.



4 electric vehicles

Used as pool vehicles.

2 electric motor bikes

In fleet for quickly accessing remote sites, rather than using quad bike.

Pine Valley Wetland Restoration Project

During the year, MLL entered a ten-year partnership with the Pine Valley Outdoor Centre Trust, as foundation sponsor of the Pine Valley Wetland Restoration Project.

The restoration of the wetland area, located where the North Bank and Pine Valley Roads intersect, will provide a boost for the local eco-system, create a beautiful place to visit and provide an opportunity for children and young people to participate "hands on" with a conservation project.

It is envisaged that every Marlborough school or group that takes part in this project will have an individual area for their plantings. Eventually when the wetland is open to the public, they can return with their families and enjoy the special space they have helped to create.

Work on weed and pest control, survey and administrative tasks is underway. Plants are being "eco-sourced" – grown from seed collected within the ecological area.

The Trust expects to be able to welcome involvement from schools and community groups from early 2023.

Mt Cawte Deer Control Programme

MLL assisted the Moetapu Community Association (MCA) through sponsorship of its Thermally Assisted Detection Systems (TADS) aerial hunting operation to control deer numbers on Mt Cawte.

The programme supports the Marlborough Sounds Restoration Trust's objective to reduce feral ungulates (hoofed mammals) from high and damaging levels to more manageable levels that are not causing extensive damage to the Sounds environment.

Over several years, the local red deer population has exploded in the Marlborough Sounds and other parts of New Zealand, impacting native flora and fauna and exacerbating soil erosion.

Ground hunting by recreational hunters in the Marlborough Sounds has failed to influence the size of the deer population due to the challenging nature of the terrain. The TADS programme hopes to significantly decrease the local deer population to restore diverse and healthy native forests.

The control operation was undertaken by an external contractor in September 2022. In total, 70 deer were shot during the operation – 68 by aerial control and two by ground hunting.

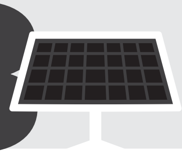
Easily accessible meat was recovered by hunters and provided to a range of recipients, including bach owners, a local store, and a licensed home kill operator.

The TADS hunting approach has been deemed a success, achieving a good result in a short timeframe, without incident and with strong community buy-in.

15

transformers

Distribution transformers with additional insulation installed this year to protect karearea. There are now 271 on our network with bird protection installed.



3

projects

Solar farm projects in planning, to generate electricity in Marlborough and reduce line losses.

3

Management and Governance

► Michaela Searle, part of the Marlborough Youth Trust work experience programme, achieved her forklift licence within the first two months of working at Marlborough Lines.

Board of Directors

Deborah Selby

Director

BCom, CA, MInstD

Deborah was appointed to the Board in November 2019. She is a chartered accountant and has considerable experience in the electricity sector achieving industry recognition as a finalist in the Deloitte Woman in Energy awards. She is an experienced leader with current governance experience and strong financial, commercial and strategic skills. Deborah's previous roles include the Group Financial Controller for Chorus, Group CFO at Electra and Shared Services Programme Financial Controller at Transpower. Deborah resigned in July 2022 upon her return to Group CFO at Electra.

Jonathan Ross

Director

LLB Hons, BCL, BA

Jonathan Ross was appointed to the Board in September 2014. For 23 years he was a partner of Bell Gully in Wellington and Auckland, specialising in corporate, securities and finance law and transactions. He is a member of both the Management Board and the Panel of Experts of P.R.I.M.E. Finance in The Hague, and was a director of Reserve Bank of New Zealand until 30 June 2022.

Alexandra Barton

Director

BCom, LLB, CA

Alex was appointed to the Board in December 2019. She resides in Blenheim and has been a director of local accounting firm Leslie & O'Donnell Ltd since 2017. Alex has worked in the UK, Australia and New Zealand both in corporate and advisory roles within investor relations, strategy and financial communication. Alex is also a director of Marlborough District Council Holdings Limited and Marlborough Airport Limited.

Phil Robinson

Chairman

NZCQS, MInstD

Phil was appointed as Chairman in March 2021, and prior to that served as a Director on the Marlborough Lines Board since September 2015. He is Managing Director of Robinson Construction Limited and has been involved in business interests that include several construction and development related companies. Phil is a Director of various other companies.

Ivan Sutherland

Director

VFM, *ANZIV*, MNZM

Ivan was appointed to the Board in September 2015. He was one of the early pioneers of the Marlborough wine industry, developing his own vineyards and subsequently the wine label Dog Point. Ivan has an extensive sporting background with NZ Rowing and is still heavily involved administratively. He was previously a Director of Marlborough Lines from 2000-2003 and Chairman of OtagoNet from 2002-2003.

Steven Grant

Director

BCom, LLB Hons

Steven was appointed to the Board in February 2017. After commencing his career as a lawyer at Bell Gully, Steven moved into investment banking, working at Macquarie Bank in London and then in Auckland. More recently, he worked for PricewaterhouseCoopers and Northington Partners, specialising in business sales, acquisitions, mergers and capital raising transactions. He is a director of the Automobile Association Limited and various other privately held companies.

Senior Leadership Team

Scott Wilkinson

Commercial Manager

BSc Hons, MBA, MESt

Scott is responsible for network pricing, maintaining the Company's relationships with the electricity retailers, network connections and customer services. Scott's background is primarily in consulting engineering, infrastructure projects and asset management, including two years working at the World Bank. Outside of work he is Chair of Marlborough Kindergarten Association.

Rebeca Clifton

HSEQ Manager

GradDipBusStuds, NZDipWHSM, ProfNZISM

Rebeca is responsible for leading the strategy to continually improve workplace health, safety and wellbeing and the integrated management system for health, safety, environment, and quality. Rebeca has a keen interest in the practical application of safety differently principles to achieve better work outcomes.

Warner Nichol

GM Network Operations

DipEng (Electrical)

Warner is responsible for day-to-day network management. Warner has substantial supply industry experience at WEL Networks, and more recently managing projects for various power companies through his own consultancy business.

Stephen McLauchlan

GM Field Services

IMLANZ

Stephen is responsible for the Field Services division, which employs the majority of the Company's staff. Stephen has electrical and management qualifications and is a member of the Institute of Managers & Leaders Australia and New Zealand (IMLANZ), the Electricity Engineers Association (EEA), and the New Zealand Institute of Safety Management (NZISM).

Gareth Jones

Chief Financial Officer

BCom, CA

Gareth is responsible for the Group's finance and ICT systems. Gareth is a Chartered Accountant, with previous experience working at KPMG in both audit and corporate finance areas. Gareth has significant experience in the electricity distribution sector having held several senior finance roles at Powerco Limited for the five years prior to joining Marlborough Lines.

Rebecca Wheeler

Human Resources Manager

BBus (HR & IR)

Rebecca is responsible for the full HR portfolio, developing and delivering the people plan to support the achievement of MLL's strategic objectives. Rebecca has over 20 years' experience as an HR business partner, supporting medium and large teams in the FMCG industry in Australia and New Zealand.

Tim Cosgrove

Chief Executive Officer

ME(Mgt), BE (Hons) (Mech), BCom, CEng, CMInstD

Tim is responsible for the leadership, strategic direction and delivery of all stakeholder, financial and operational objectives. Tim has held roles within the Todd Corporation as General Manager Todd Generation and headed Operations and Development for Nova Energy. Prior to his time with Todd Corporation, Tim was a Lieutenant Commander in the Royal New Zealand Navy.

Ray Brown

GM Engineering & Development

BE (hons) CPEng, IntPE(NZ), FEngNZ, CMEngNZ

Ray joined MLL in November 2021. Ray's team is responsible for planning MLL's network, preparation of the Asset Management Plan, developing capital projects that support the company's aspirations, and providing engineering services. Ray has 35 years' of engineering and development experience in electricity generation, transmission and distribution businesses largely in New Zealand.

Corporate Governance Statement

Governance structure at Marlborough Lines

Following the introduction of the Energy Companies Act 1992, Marlborough Lines Limited (the Company) was corporatised as the successor entity to the Marlborough Electric Power Board.

The ownership of the shares in the Company were vested to the trustees of the Marlborough Electric Power Trust (the Trust). The six publicly-elected trustees individually hold the shares on behalf of the Trust and its beneficiaries. The trustees are referred to within this document as the shareholders. Trustee profiles are available on the Trust's website.

The Trust Deed, which governs the conduct and activities of the Trust, also requires the shareholders to support the Company in its fundamental obligation to be a successful business. This is a requirement of section 36 of the Energy Companies Act. The Trust Deed is available on the Trust's website.

The shareholders, through a collective resolution of the Trust, are responsible for the selection and appointment of the directors. The directors perform the key corporate governance role of the Company.

The board of directors (the Board) is responsible for setting the strategies and objectives of the Company in accordance with key policies endorsed by the Company's shareholders in the Company's annual Statement of Corporate Intent (SCI).

Directors' and management commitment

The directors of Marlborough Lines Limited (MLL) acknowledge the need for high standards of corporate governance and ethical behaviour by all directors and employees of the Company, its subsidiaries and associates.

Directors and management are committed to effective governance. Governance includes a set of systems and processes, supported by people with appropriate competencies and behaviour. This provides shareholders and other stakeholders with the assurance that the Company delivers on its commitments.

The directors recognise that good governance is not merely a matter of achieving legislative compliance but also of ensuring that appropriate standards and behaviour are set and achieved. This includes the establishment and maintenance of a culture at Board level and throughout the Company which requires directors and employees to deal fairly with others, and with transparency, and to protect the interests of all stakeholders.

The Board seeks to ensure that issues within the Company are dealt with in a manner which, if subject to scrutiny, will reinforce or enhance the reputation of the Company and those involved.

In order to formalise their commitment to good governance, the directors have prepared a Corporate Governance Manual including a Code of Conduct. The Board seeks to ensure that the Company is properly governed within a broader framework of corporate social responsibility and regulatory oversight.

The Board has compared itself against the Financial Markets Authority (FMA) corporate governance principles and guidelines. The following sections outline how the Company has applied the eight corporate governance principles.

FMA Principle 1:

Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

The Board adopted a Code of Conduct that outlines the ethical and professional standards by which the Company's directors and employees are expected to conduct their professional lives. It outlines responsibilities to various stakeholders and provides guidance, for example, on how to deal with conflicts of interest and the receipt of gifts. The Company also has a suite of policies that support the Code of Conduct, including a Fraud Policy, a Travel and Expenses Policy and a Receipt of Gifts Policy. These are available to all employees.

FMA Principle 2:

Board Composition and Performance

To ensure an effective board, there should be a balance of skills, knowledge, experience, independence and perspectives.

The shareholders, through a collective resolution, are responsible for the selection and appointment of the directors.

The MLL Constitution provides for a maximum of eight directors. The Board as at 30 June 2022 comprised of six non-executive directors. Each year, the Company's Constitution requires one-third of the Directors to retire by rotation. In practice, this means that two directors retire each year. The shareholders may reappoint retiring directors or make new appointments following advertising for applications for appointment.

At the Annual General Meeting (AGM) in November 2021, following the retirement of David Dew in March 2021, Jonathan Ross was reappointed to the Board.

This year at the AGM, following the resignation of Deborah Selby in July 2022, Phil Robinson will retire by rotation. Mr Robinson is available for reappointment to the Board.

All new directors undertake an induction process at the time of their appointment to the Board to become familiar with matters relating to the Company's business strategy and outlook, its relationship with its shareholders, current issues before the Board and the Company's operations generally.

The Board has a formal Board Charter that outlines the Board's role and responsibilities, including formal delegations to management and dealing with conflicts of interest.

The performance of the Board and its committees is evaluated annually in accordance with the Board's Performance Evaluation Policy. This evaluation considers the effectiveness of the Board in working as a unit, and the extent to which additional skills might be needed from time to time to achieve its strategic goals.

The Board meets at intervals of approximately six weeks. Additional meetings are convened when required.

During the year to 30 June 2022, there were eight Board meetings, four Audit and Risk Committee meetings and four Investment Committee meetings held. The meetings were attended by directors as follows:

DIRECTOR	BOARD		AUDIT AND RISK COMMITTEE		INVESTMENT COMMITTEE	
	Meetings Held[1]	Attended	Meetings Held[1]	Attended	Meetings Held[1]	Attended
A Barton	8	8				
S Grant	8	8	4	4	4	4
P Robinson	8	8			4	4
J Ross	8	8	4	4	4	4
D Selby	8	8	4	4		
I Sutherland	8	8				

1 Meetings Held is the number of meetings held during that individual director's tenure on the Board/Committee.

FMA Principle 3:

Board Committees

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

The Board has established an Audit and Risk Committee and an Investment Committee, which operate under formal Committee Charters. The Charters outline the Committee's authority, duties and responsibilities, composition and procedures.

The objective of the Audit and Risk Committee is to assist the Board in fulfilling its oversight responsibilities in relation to internal control systems, the financial and regulatory reporting process, the audit process, risk management and the Company's process for monitoring compliance with laws and regulations. The Committee as at 30 June 2022 is made up of Steven Grant, Jonathan Ross and Deborah Selby. Mr Ross has been Chair of the Audit and Risk Committee since 1 July 2019.

The objective of the Investment Committee is to assist the Board in identifying and assessing possible investment opportunities. The Committee as at 30 June 2022 is made up of Alexandra Barton, Steven Grant and Jonathan Ross. Mr Grant has been Chair of the Investment Committee since its establishment in April 2021.

The Committee proceedings are reported back to the Board and minutes are provided. Any director may attend Committee meetings.

The Board may from time to time establish other committees to assist it by focusing on specific responsibilities in greater detail than is possible or practical for the Board as a whole. These committees would report to the Board and make any necessary recommendations.

FMA Principle 4:

Reporting and disclosure

The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

The Board demands integrity in financial and non-financial reporting. The Board requires that sufficient meaningful information is provided to its stakeholders (in addition to that required by law) to ensure that they are well informed.

Each year, the Company produces an SCI that outlines the Company's objectives and also the information requirements of its shareholders. The SCI is agreed in consultation with the Trustees of the Marlborough Electric Power Trust.

Key reports provided by the Company to its stakeholders include:

- Quarterly reports provided to the Marlborough Electric Power Trust;
- Publicly-disclosed Asset Management Plan;
- Publicly-disclosed Electricity Distribution Business Information Disclosure Schedules;
- Publicly-disclosed Financial Statements and Statement of Service Performance; and
- Other information included in the Annual Report.

The Electricity Distribution Business Information Disclosure Schedules, Financial Statements and Statement of Service Performance are subject to external audit. Unqualified audit opinions have been obtained for the most recent year.

In addition to the role of the Audit and Risk Committee, the Board meets to consider appropriate matters. The Board recognises that it has overall responsibility to safeguard the integrity of the Company's financial and regulatory reporting.

As a public benefit entity with a strong community role, the Board reports on a number of non-financial metrics and results. The Annual Report reports on the Company's employee's, health and safety performance, electricity network performance, the support it provides the community, and its environmental impact. The Statement of Service Performance reports on the Company's performance against network reliability, health and safety, and customer and environmental performance targets.

FMA Principle 5:

Remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

The Company's Constitution provides that the shareholders set the directors' remuneration. This is undertaken following an independent external evaluation of remuneration levels and workloads.

The Board sets the remuneration of the Chief Executive Officer, following the receipt of independent external advice.

Remuneration of the directors of MLL is outlined in the table below:

Director	Board fees	Audit and Risk Committee fees	Investment Committee fees	Total remuneration
A Barton	53,271		1,361	54,632
S Grant	53,271	5,000	*Chair* 10,000	68,271
P Robinson	*Chair* 106,542		3,639	110,180
J Ross	53,271	*Chair* 10,000	5,000	68,271
D Selby	53,271	5,000		58,271
I Sutherland	53,271			53,271
Total	**372,896**	**20,000**	**20,000**	**412,896**

All MLL directors are directors of the Company's wholly-owned subsidiary Seaview Capital Limited. No additional directors' fees were paid by Seaview Capital Limited or Energy Marlborough Limited.

No directors hold any shares in any of the Group companies.

The directors of Yealands Wine Group Limited (YWG) are appointed by the Board of MLL. As at 30 June 2022, two MLL directors were also on the YWG Board. The directors' fees paid to the directors of YWG are determined by the Board of MLL following the receipt of independent external advice.

The directors of YWG Limited and their remuneration is outlined in the table below:

Director	Board fees	Audit and Risk Committee fees	Health and Safety Committee fees	Total remuneration
B Coates *From 29 July 2021*	46,277	2,125		48,402
D Dew *to 21 Feb 2022*	35,521	3,875	3,875	43,271
S Grant	55,000	6,000		61,000
M Hamilton	64,167		*Chair from Feb 2022* 3,521	67,688
D Selby	55,000	*Chair* 10,000		65,000
M Thomson	*Chair* 110,000		6,000	116,000
Total	**365,965**	**22,000**	**13,396**	**401,361**

FMA Principle 6:

Risk Management

Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.

The Board has overall responsibility for the Company's systems of financial and operational control. The Board ensures that recommendations made by the external auditors, and other external advisers, are carefully considered and that appropriate action is taken to ensure that the Company has an adequate control environment to manage the risks identified.

The Company has a Risk Management Policy and framework incorporating the ISO 31000:2018 risk management processes.

Risks are identified through a variety of methods including on-site checklists, visual hazard inspection, reporting of accidents and near misses and formal risk reviews. The Company monitors and reviews these risks on a regular basis. Monthly reports to the Board provide information on incidents and near misses to keep the Board informed of the Company's health and safety performance.

The Board, so far as reasonably practicable, is committed to ensuring that the Company's employees, contractors and the public are kept safe.

The Company holds the following accreditations for its health and safety management systems:

- Health and Safety Management System conforming to ISO 45001:2018; and
- Safety Management Systems for Public Safety conforming to NZS 7901:2014.

The Company also holds the following accreditations to assist with the management of certain other risks:

- Quality Management System conforming to ISO 9001:2015; and
- Environmental Management System conforming to ISO 14001:2015.

FMA Principle 7:

Auditors

The board should ensure the quality and independence of the external audit process.

The Company's auditors, Deloitte, are appointed by the Controller and Auditor-General, pursuant to Section 45 of the Energy Companies Act 1992. The term of the lead audit partner is governed by the Controller and Auditor-General requirements. The lead audit partner is required to rotate every six years.

The Audit and Risk Committee meets periodically during the year with the auditor to discuss the audit plan as well as findings from audit procedures. The Board has extended an open invitation to the auditor to discuss any issue at any time.

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor-General, Deloitte also undertakes the audit of the Company's financial and performance disclosure information provided to the Commerce Commission in accordance with the Commerce Act. This function is also undertaken on behalf of the Controller and Auditor-General.

FMA Principle 8:

Shareholder relations and stakeholder interests

The board should respect the rights of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity.

The Energy Companies Act provides that the directors will provide a draft SCI within the first working month of the year and that the shareholders will respond with their views during the following month. The directors are responsible for monitoring management's operation of the Company in accordance with the targets and policies outlined in the SCI. The SCI is available on the Company's website.

The Company's shareholders play an integral part in the Company's corporate governance. To give effect to this oversight role, the Board keeps the shareholders informed through the provision of relevant information, including:

- Quarterly financial reports;
- Opportunities for questions at periodic meetings between the trustees and the Board;
- Special meetings and visits to operational sites;
- Briefings as required by representatives of the Board; and
- The Annual Report.

The Trustees, as shareholders, are able to raise matters for discussion at annual and special meetings of the Company. They have ultimate control of the Company through the appointment process for directors.

The Company makes a wide range of additional information available to the shareholders and other stakeholders through the publication of topical newsletters which are sent to every connected customer, the completion of the Information Disclosures accounts and Asset Management Plan as required by the Commerce Commission and the provision of an extensive selection of information, statistics and reports on the Company's website.

Further information

Further information on corporate governance at MLL can be found in the Corporate Governance Manual available on the Company's website.

Further information on the directors' qualifications, experience and length of service are available towards the front of this Annual Report. The directors' disclosures of interests are available in the following general disclosures section.

General Disclosures

For the year ended 30 June 2022

Introduction

The directors of Marlborough Lines Limited (MLL) submit the following report to shareholders. The report has been prepared to include all information required to be disclosed under the Companies Act 1993.

1. Principal Activities of the Company

MLL is an electricity network owner and operator. The Company also operates related electrical contracting services. The Company owns Yealands Wine Group (YWG), a major wine producer and exporter, with extensive vineyards and a winery located in Marlborough. The Company also holds an investment in the Nelson-based electricity network company, Nelson Electricity Limited (NEL), along with an investment in newly incorporated company Energy Marlborough Limited.

2. Review of Financial Performance

SUMMARY FINANCIAL RESULTS	Group 2022 $000	Group 2021 $000
Net profit after tax	14,531	5,463
Other comprehensive income net of tax	31,621	13,290
Net surplus attributable to the shareholders	**46,162**	**18,753**

All results are stated in current accounting terms and are derived in accordance with the New Zealand equivalents of the International Financial Reporting Standards.

The financial performance of the Company and Group are further explained in the Chief Financial Officer's report.

3. Dividends

The Company made the following dividend payments for the year ended 30 June 2022.

DIVIDENDS FOR THE YEAR ENDED 30 JUNE 2022	Declaration date	Amount
Final dividend	22 June 2022	$1,800,000
Total dividend		**$1,800,000**
Ordinary shares issued		28,000,000
Dividend per share		$0.064
Value of Share Capital (Parent net assets at current valuation)		$372,099,000

Full imputation credits were attached to all dividend payments.

4. Auditors

In accordance with Section 45 of the Energy Companies Act 1992, the Office of the Auditor-General is responsible for the audit of MLL. In accordance with Section 29 of the Public Finance Act 1977, the Office of the Auditor-General has contracted the audit of MLL to Pam Thompson of Deloitte Limited.

FEES PAID TO AUDITORS (FOR GROUP)	Audit Fees	Other Fees
Deloitte – for Marlborough Lines Limited Group	$98,000	$34,200
Deloitte – for Yealands Wine Group Limited Group	$126,000	$0
Disbursements including OAG fees	$64,000	$0
Total amount paid to Auditors	**$288,000**	**$34,000**

5. Directors' interests

DIRECTORS' INTERESTS

Director	Group entities	External entities
Marlborough Lines Limited directors		
A Barton	Marlborough Lines Limited Seaview Capital Limited	Barton Food Limited BDO New Zealand Limited BDO Marlborough Limited BDO New Zealand Nominee Limited Fairhall Fundraising Incorporated MDC Holdings Limited Marlborough Airport Limited Ngāti Apa ki te Rā Tō Trust Village to Village Charitable Trust
S Grant	Marlborough Lines Limited Seaview Capital Limited Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Astute Consulting & Management Limited Care Group Limited Import Distribution Limited The New Zealand Automobile Association Limited (and subsidiaries)
P Robinson	Marlborough Lines Limited Nelson Electricity Limited Seaview Capital Limited	Black Stump Investments Limited Construction Coatings Limited Group Hire Limited Nikau Drive Limited Outer Limits Limited Precast Systems Limited Redwood Development Limited Robinson and Company Limited Robinson Construction Limited Robinson Developments Limited Scaffold Marlborough Limited Vector One Nine Limited Waterfront Construction Limited
J Ross	Marlborough Lines Limited Seaview Capital Limited	P.R.I.M.E. Finance Stichting Reserve Bank of New Zealand The Rhodes Scholarships in New Zealand
D Selby	Marlborough Lines Limited Seaview Capital Limited Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Acacia Valley Limited
I Sutherland	Marlborough Lines Limited Seaview Capital Limited	Ashmore Vineyards Limited Axel 2000 Limited Beviamo Limited Dog Point Estate Limited Dog Point Vineyards Limited Dog Point Winery Limited Greywacke Vineyards Limited MWCS Investments Limited Omaka Settlement Vineyards Limited Waikaitu Limited Whatamonga Farm Limited Whatamongo Forests Limited Yarrum Vineyards Limited

DIRECTORS' INTERESTS

Director	Group entities	External entities
Additional subsidiary directors		
B Coates	Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Comvita Limited Northern Rescue Helicopter Limited Toitu Tahua, Centre for Sustainable Finance White Cloud Dairy Innovation Limited
T Cosgrove	Energy Marlborough Limited Nelson Electricity Limited	Evolution Business Performance Limited T&L Limited Treasury Advisory Services Limited Treasury Management Services Limited Treasury Services Group Limited
M Hamilton	Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Brothers Beer Holdings Limited BTCC Holdings Limited Ceres Organics Limited Epicurean Dairy Holdings Limited (and subsidiaries) Freshpork New Zealand Limited (and subsidiaries) Hamilton Concepts Limited Living Drinks Holdings Limited Pluscarden Spiers Trust Limited Rugby Imports Limited
G Jones	Energy Marlborough Limited	
M Thomson	Yealands Estate Limited Yealands Estate Wines Limited Yealands Wine Group Limited	Foxrock Holdings Limited Kiwi-Oeno Imports Limited Kiwi-Oeno Limited Kiwi-Oeno Winemaking Consultancy Limited Ko Brewing Company Limited Terrapieno s.r.l. Italy Tinpot Hut Wines Limited Vineo Limited

Note: All interests are as a director or trustee of the entity, unless otherwise stated.

Payments are from time to time made to entities in which directors have an interest. These are documented in the related party note of the financial statements and have been undertaken on an arms-length commercial basis.

The Company has arranged policies of directors' Liability Insurance together with Deeds of Indemnity which provide cover against costs and expenses involved in defending legal actions and resulting payments arising from a liability to persons, incurred in their position as a director.

There were no notices from directors of the Company requesting to use Company information received in their capacity as directors, which would not otherwise have been available to them.

Information on directors' remuneration is included in the Corporate Governance Statement. No director of the Company has received, or become entitled to receive, a benefit other than that listed in the remuneration section of the Corporate Governance Statement.

6. Employee Remuneration

Details of the number of employees in each remuneration range for the Marlborough Lines Group are below.

REMUNERATION RANGE	PARENT – NUMBER OF EMPLOYEES		SUBSIDIARIES – NUMBER OF EMPLOYEES	
	2022	2021	2022	2021
$100,000 – $110,000	13	18	4	7
$110,000 – $120,000	14	6	4	5
$120,000 – $130,000	5	2	5	2
$130,000 – $140,000	4	1	4	4
$140,000 – $150,000	1	2	2	2
$150,000 – $160,000	3	3	1	–
$160,000 – $170,000	3	1	1	1
$170,000 – $180,000	1	1	3	–
$180,000 – $190,000	–	1	1	–
$190,000 – $200,000	–	–	1	3
$200,000 – $210,000	–	–	1	1
$210,000 – $220,000	–	–	2	1
$220,000 – $230,000	–	–	–	1
$230,000 – $240,000	–	1	–	1
$240,000 – $250,000	1	1	–	–
$250,000 – $260,000	1	–	2	1
$260,000 – $270,000	–	–	1	–
$270,000 – $280,000	–	1	–	1
$280,000 – $290,000	1	1	–	1
$290,000 – $300,000	1	–	1	1
$310,000 – $320,000	–	–	2	–
$320,000 – $330,000	–	–	1	–
$410,000 – $420,000	–	1	–	–
$450,000 – $460,000	1	–	–	–
$560,000 – $570,000	–	–	–	1
$590,000 – $600,000	–	–	1	–

In addition, medical insurance is provided to all employees. Death and disability insurance is provided to all MLL employees. Company motor vehicles are provided to senior managers.

7. Donations

During the year, the Company made tertiary education grants totalling $40,000. These grants are in addition to the support the Group provides to many organisations throughout the year by way of sponsorship and donation.

8. Certification

For and on behalf of the Board of MLL.

P I Robinson
CHAIRMAN
28 September 2022

C J Ross
DIRECTOR
28 September 2022

Reporting

► Lauren Barnsley, Property Advisor, and Steve Neal, Surveyor/Easement Coordinator.


Marlborough
Lines

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Results in Brief

$ million unless otherwise stated	2023 Target	2022 Actual	2022 Target	2021 Actual	2020 Actual	2019 Actual
GROUP						
Total revenue	141.8	139.9	127.2	144.8	147.8	152.4
EBITDA	24.7	27.4	22.8	16.7	19.5	25.9
EBIT	14.1	17.3	12.4	6.8	9.5	16.3
Pre-tax, pre-discount surplus	19.7	29.1	17.4	17.2	10.9	19.4
Net profit after tax	7.3	14.5	5.7	5.5	7.4	8.4
Total value of group assets	669.4	672.1	626.5	627.4	652.9	648.0
Share capital	29.0	29.0	29.0	29.0	29.0	29.0
Shareholder's equity	508.3	503.5	463.0	459.1	442.2	441.5
Net asset backing per share	18.15	17.98	16.54	16.40	15.79	15.77
Pre-discount return on shareholder's funds	3.38%	5.29%	3.22%	3.22%	2.46%	4.40%
Net interest bearing debt	85.6	71.6	80.6	80.6	115.5	112.3
Interest cover (EBIT/interest)	3.79	6.24	3.14	1.67	1.70	3.38
PARENT						
EBITDA	18.2	16.5	16.4	16.6	15.3	23.4
EBIT	7.7	7.0	6.0	7.2	5.9	14.3
Customer discount (paid and accrued)	9.0	8.8	8.8	8.8	8.6	8.4
Net profit after tax	6.1	5.9	4.3	5.8	5.2	12.9
Pre-discount return on shareholder's funds	3.44%	3.34%	2.93%	3.35%	3.18%	5.39%

Climate Risks and Opportunities

Marlborough Lines Limited (MLL) has taken environmental management seriously for more than two decades, first achieving certification to ISO 14001:2004 Environmental Management System standard in 2002 and completing its first carbon emissions assessment in 2008. MLL has completed carbon emissions assessments every three years since, with its next assessment due in 2023.

Task Force on Climate-related Financial Disclosures (TCFD)

The New Zealand Government mandated reporting under the TCFD framework for publicly listed companies and large financial institutions in 2021, with the External Reporting Board (XRB) currently developing reporting standards. While MLL is not currently required to report under this framework it believes that the information that is produced is valuable to its stakeholders and will ultimately help drive better processes that will support MLL in achieving its sustainability objectives. The TCFD recommendations are based on providing information on the four areas below.

Governance

MLL's board of directors is responsible for MLL's governance and the Board has an Audit and Risk Committee that assists with the oversight and control of risk and assurance, including climate-related risk. MLL's Senior Leadership Team (SLT) is responsible for leading MLL's risk management and strategy development and the day-to-day delivery and development of strategic objectives. Governance of MLL is discussed further in the Corporate Governance Statement of this Annual Report.

Strategy

The risks and opportunities that MLL has identified which relate to climate change can be categorised as:

1. **Physical damage to MLL's network or caused by MLL's network.** The Ministry for the Environment predicts that climate change will result in drier conditions in Marlborough along with an increase and moderate and extreme rainfall events and extreme winds. MLL has recently experienced the impacts from two extreme flood events (July 2021 and August 2022). These event's caused damage to MLL's network and significantly restricted road access to parts of MLLs network, increasing the cost incurred by MLL to restore supply and ongoing maintenance of its network. Drier conditions also increase fire risk. Future sea level rise may also impact MLL's network in low lying coastal areas.

2. **Impact to MLL's investments.** This may be through physical damage (e.g., weather impacts on vineyard harvests) or changing consumer trends (e.g., move to more sustainable brands).
3. **Increase to electricity volumes and peak loads as a result of decarbonisation of the industrial and transportation sectors.** This is both an opportunity for MLL (e.g., increased electricity volumes and demand for renewable energy) and a risk to the network if demand exceeds available network capacity.

MLL's strategy is outlined in its Statement of Corporate Intent, which is published on MLL's website. Within that document are three key objectives that respond to the above climate risks and opportunities:

Assets: Optimise our assets to provide a flexible, dynamic, and resilient network to accommodate future technologies and promote regional growth;

Technology and Innovation: Empower our consumers and region by deploying technology and commercial innovation to accelerate and provide for future load growth; and

Environment: Minimise our environmental impact through operational efficiencies, reducing net carbon emissions, and supporting regional environmental initiatives.

MLL recognises that climate change and decarbonisation will likely result in increased costs incurred as it responds by building a more resilient network with greater capacity and flexibility. MLL expects that these costs will be met by greater use of MLL's network, and MLL will be able to socialise these costs across those benefitting from the use of its network.

MLL is also looking to invest in renewable energy generation to both earn a commercial return and also provide additional regional sources of electricity generation.

Risk management

MLL's approach to risk management is based around the ISO 31000 Risk Management standard requiring a continuous cycle of analysis, monitoring and review.

MLL's process for identifying climate related risks and opportunities is incorporated into the wider risk management process, as climate risk is only one of many risks that the company faces. The likelihood and consequence of each risk is assessed, along with the controls available to mitigate that risk. The residual risk is tested against the Board's risk appetite to ensure that it is mitigated to an acceptable level.

Risk assessments are reported to the Audit and Risk Committee, with a priority on those with the highest residual/controlled risk. The rating of each risk is measured against MLL's consequence and likelihood matrix that is uses to assess all company risks.

Many of the controls that MLL believes will reduce the impacts of the climate related risks have already been discussed elsewhere in this Annual Report and include:

- Building network resilience (see Our Assets);
- Obtaining better low voltage data (see Technology and Innovation);
- Investing in renewable generation (see Technology and Innovation);
- Offering pricing plans to encourage off peak EV charging (see Technology and Innovation).

Metrics and Targets

MLL has linked its key sustainability metrics and targets to three selected United Nations Sustainable Development Goals, being:

Below these headline objectives, MLL has a series of metrics and targets that are relevant at an operational level, with the key headline targets disclosed in MLLs Statement of Corporate Intent being:

1. MLL net greenhouse gas emissions being a net sequestration (removal) of 750 tonnes in FY23. MLL is a net sequester due to its ownership of a 44 hectare forest block in the Wakamarina Valley.
2. Energy Marlborough Limited (an MLL subsidiary) owning 1 MW of renewable electricity generation by 30 June 2023. This will be mostly achieved through the development of a solar generating facility at MLL's Taylor Pass depot site.
3. MLL environmental sponsorship of $75,000 in FY23. For more information on MLL's sponsorships, see Our Environment section.

As discussed above, MLL currently completes a greenhouse gas emissions assessment every three years, with its last assessment completed and disclosed in its 2020 Annual Report and its next due in 2023.

MLL's main focus to combat climate change is to enable the decarbonisation within Marlborough by having an electrical distribution network available to connect to, at an appropriate price.

Financial Statements

Directors' Report

The Directors are pleased to present the consolidated financial statements of the Marlborough Lines Limited Group (the "Group") for the year ended 30 June 2022.

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which materially reflect the financial position of the Marlborough Lines Limited Group and the results of its operations and cash flows for the year ended 30 June 2022.

The Directors consider that the consolidated financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied, and supported by reasonable and prudent judgements and estimates and that all applicable New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) have been followed.

The Directors are responsible for ensuring that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the Group and which enable them to ensure that the financial statements comply with the Financial Reporting Act 2013.

The Directors are responsible for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This report is dated 28 September 2022 and is signed in accordance with a resolution of the Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Board of Marlborough Lines Limited.

P I Robinson
CHAIRMAN
28 September 2022

C J Ross
DIRECTOR
28 September 2022

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2022

	Notes	Group 2022 $000	Group 2021 $000
CONTINUING OPERATIONS			
Revenue	3	139,727	144,704
Operating expenses	4	(114,661)	(130,280)
Operating surplus		**25,066**	**14,424**
Share of equity accounted investments net surplus	9.4	138	30
Gain recognised on sale of assets	5	1,237	3,151
Reversal / (impairment) of vineyard assets	5	910	(932)
EBITDA		**27,351**	**16,673**
Depreciation and amortisation	5, 6, 7	(10,067)	(9,879)
Finance income	15	210	57
Finance expenses – gains / (losses)	15	3,614	(127)
Realised / unrealised foreign exchange (losses) / gains	15	(814)	1,743
Profit before tax expense		**20,294**	**8,467**
Tax expense	22.1	(5,763)	(3,004)
Net profit for the year		**14,531**	**5,463**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in foreign currency translation reserve		303	(107)
Asset revaluation	5	34,051	14,781
Tax effect of asset revaluation	22.2	(3,143)	(1,384)
Other	9.4	420	–
Other comprehensive income net of tax		**31,631**	**13,290**
Total comprehensive income for the year		**46,162**	**18,753**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Group Share Capital $000	Group Revaluation Reserves $000	Group FCTR $000	Group Retained Earnings $000	Attributable to Owners of the Parent $000	Non Controlling Interest $000	Group Total Equity $000
Balance at 1 July 2020	29,026	113,317	(173)	299,983	442,153	32	442,185
TOTAL COMPREHENSIVE INCOME							
Net profit	–	–	–	5,463	5,463	–	5,463
OTHER COMPREHENSIVE INCOME NET OF TAX							
Sale of assets	–	(14,485)	–	14,485	–	–	–
Net change in foreign currency translation reserve	–	–	(107)	–	(107)	–	(107)
Net change in asset revaluation reserve	–	13,397	–	–	13,397	–	13,397
Total comprehensive income	**–**	**(1,088)**	**(107)**	**19,948**	**18,753**	**–**	**18,753**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY							
Dividends paid to equity holders	–	–	–	(1,800)	(1,800)	–	(1,800)
Balance at 30 June 2021	**29,026**	**112,229**	**(280)**	**318,131**	**459,106**	**32**	**459,138**
Balance at 1 July 2021	**29,026**	**112,229**	**(280)**	**318,131**	**459,106**	**32**	**459,138**
TOTAL COMPREHENSIVE INCOME							
Net profit	–	–	–	14,531	14,531	–	14,531
OTHER COMPREHENSIVE INCOME NET OF TAX							
Net change in foreign currency translation reserve	–	–	303	–	303	–	303
Net change in asset revaluation reserve	–	30,908	–	–	30,908	–	30,908
Other	–	420	–	–	420	–	420
Total comprehensive income	**–**	**31,328**	**303**	**14,531**	**46,162**	**–**	**46,162**
TRANSACTIONS WITH OWNERS RECORDED DIRECTLY IN EQUITY							
Dividends paid to equity holders	–	–	–	(1,800)	(1,800)	–	(1,800)
Share Capital Repayment	–	–	–	–	–	(27)	(27)
Balance at 30 June 2022	**29,026**	**143,557**	**23**	**330,862**	**503,468**	**5**	**503,473**

The accompanying notes form an integral part of these financial statements. -

Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	Group 30 June 2022 $000	Group 30 June 2021 $000
NON-CURRENT ASSETS			
Plant, property and equipment	5	540,843	504,722
Intangible assets	6	2,637	2,664
Right-of-use assets	7	4,335	4,416
Investments in associates accounted for using the equity method	9.3	16,155	15,597
Derivatives	20.7	781	2,034
Total non-current assets		**564,751**	**529,433**
CURRENT ASSETS			
Cash and cash equivalents		2,212	5,365
Short-term investments		12,094	8,500
Trade and other receivables	10	27,145	24,858
Income tax receivable		207	1,451
Inventories and biological work in progress	11	64,916	56,246
Derivatives	20.7	814	1,549
Total current assets		**107,388**	**97,969**
Total assets		**672,139**	**627,402**
NON-CURRENT LIABILITIES			
Lease liability	7	3,544	3,704
Other borrowings		55	229
Retirement benefit obligations		493	521
Derivatives	20.7	1,292	6,788
Deferred tax liability	22.2	56,741	50,526
Borrowings	14	69,600	69,600
Total non-current liabilities		**131,725**	**131,368**
CURRENT LIABILITIES			
Trade and other payables	12	28,767	21,111
Income tax payable		189	429
Lease liability	7	850	797
Other borrowings		944	1,138
Employee entitlements	13	3,363	2,296
Derivatives	20.7	828	125
Borrowings	14	2,000	11,000
Total current liabilities		**36,941**	**36,896**
EQUITY			
Share capital	16	29,026	29,026
Revaluation reserves and foreign currency translation reserve	17	143,580	111,949
Retained earnings		330,862	318,131
Equity attributable to owners of the Company		**503,468**	**459,106**
Non-controlling interests	18	5	32
Total equity		**503,473**	**459,138**
Total equity and liabilities		**672,139**	**627,402**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Note	Group 2022 $000	Group 2021 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		143,719	156,757
Receipts from associates		124	116
Interest received		210	57
Dividends received from associates		550	700
Payments to consumers, suppliers and employees		(110,337)	(120,616)
Interest paid		(2,987)	(4,643)
Income tax paid		(1,689)	(1,829)
Net cash generated from operating activities	**25**	**29,590**	**30,542**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of plant, property and equipment		1,473	33,620
Purchase of plant, property and equipment		(18,330)	(27,294)
Purchase of intangible assets		(155)	(141)
Net cash used in investing activities		**(17,012)**	**6,185**
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease liability principal repayments		(730)	(517)
Lease liability interest repayments		(107)	(133)
Proceeds from borrowings		49,500	74,500
Repayment of borrowings		(59,000)	(109,400)
Dividends paid		(1,800)	(1,800)
Net cash generated from financing activities		**(12,137)**	**(37,350)**
Net increase / (decrease) in cash and cash equivalents		441	(623)
Cash and cash equivalents at the beginning of the period		13,865	14,488
Cash and cash equivalents at the end of the period		**14,306**	**13,865**

The accompanying notes form an integral part of these financial statements.

Statement of Accounting Policies

For the year ended 30 June 2022

Reporting Entity

Marlborough Lines Limited (the "Company") is a profit-oriented company incorporated in New Zealand. The Company operates primarily in the field of electricity distribution and also undertakes ancillary contracting services in relation to the Marlborough regional electricity network.

The "Group" for financial reporting purposes comprises:

- Marlborough Lines Limited (Parent Company);
- Yealands Wine Group Limited (100% owned subsidiary) and its subsidiaries;
- Nelson Electricity Limited (50% owned associate company);
- Seaview Capital Limited (100% owned holding company);
- Energy Marlborough Limited (100% owned subsidiary).

The Group's primary activities relate to electricity distribution in the upper South Island of New Zealand and the production of wine which is sold both nationally and internationally.

Statement of Compliance

The Group reports in accordance with Tier 1 for-profit accounting standards under XRB A1: Accounting Standard Framework. The Company is a Tier 1 entity applying full New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS) on the basis that it is a large, for-profit public sector entity with total expenses greater than $30 million. These consolidated financial statements have also been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013 and the Energy Companies Act 1992.

Basis of Preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). The functional currency for the Group is the New Zealand Dollar rounded to the nearest thousand. This is also the presentation currency. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Consolidated Statement of Financial Position are stated net of GST except for receivables and payables which include GST.

The consolidated financial statements have been prepared on the basis of historical cost except for the revaluation of certain items of plant, property and equipment, agricultural produce and financial instruments. Separate accounting policies are outlined in the notes to the financial statements regarding the valuation of these types of assets. Cost is based on the fair value of the consideration given in exchange for the asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value and value in use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 inputs are derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

Changes in Accounting Policies

During the year, Yealands Wine Group Limited (YWG) implemented a change in accounting estimate to depreciate assets on a straight line basis. This was done to better represent the utilisation of the asset over its useful life. As this is a change in accounting estimate, restatement of prior year comparatives is not required. The impact of this change is a decrease in annual depreciation of $1.5 million. The accounting policies adopted are consistent with those of the previous financial year.

Notes to the Financial Statements

Key Judgements and Estimates

This section provides information on the subjective assessments made by Group management that affect the reported results.

1. Key Judgements and Estimates

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are based on historical experience and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at 30 June 2022, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities, are disclosed below. In summary, they are:

Fair value of electricity reticulation network	Note 5	Plant, Property and Equipment
Fair value of land, buildings, vineyard improvements and bearer plants	Note 5	Plant, Property and Equipment
Application of NZ IFRS 16 Leases	Note 7	Leases
Valuation of inventory	Note 11	Inventories and Biological Work in Progress
Impairment	Note 1.3	Critical Accounting Estimate – Impairment

1.1 Critical Accounting Estimate – Fair Value of Electricity Reticulation Network

The valuation of plant, property and equipment, particularly in relation to the electricity distribution network, has a material impact on the consolidated financial statements due to the sensitivities of the valuation methodology.

Electricity reticulation network assets belonging to the Company had their fair value assessed as at 30 June 2020 by independent valuer PricewaterhouseCoopers. The valuation carried out is consistent with NZ IFRS 13: Fair Value Measurement, and, in the absence of specific market evidence of relevance to the Company's network assets, the valuation was undertaken by way of a discounted cash flow methodology in order to establish fair value. PricewaterhouseCoopers considered the impact of COVID-19 as part of the forecast cash flows, including revenues. This did not change the valuation outcome.

In order to derive the valuation, a forecasting model was developed which incorporated the regulatory input methodologies. The model forecasts cash flows for a 10-year period, and derives a terminal value for the cash flows beyond the 10-year forecast. The resulting valuation has been expressed as a range based on the discount rate used to discount the forecast cash flows. Sensitivity analysis was conducted on the key input assumptions to test their impact on value.

Model Input	Key Assumption	Sensitivity modelled	Impact on Value
Revenue growth	Combined volume and price growth of 1.1%	5% movement in revenue	5.1% movement
Operating expenditure	Consistent with Asset Management Plan	5% movement in opex	0.2% movement
Discount rate	4.7% to 5.7%	0.5% movement in rate	4.2% movement
RAB multiple	1.0 times	0.05 increase	3.8% movement

The carrying value of reticulation system assets was found to be within the valuation range and no adjustment was made for 2020.

In the current year, management reviewed the key assumptions used in the 30 June 2020 valuation and found no reason to change the assessment of fair value.

1.2 Critical Accounting Estimate – Fair Value of Land, Buildings, Vineyard Improvements and Bearer Plants

Land and buildings (not including reticulation system assets), vineyard improvements and bearer plants are revalued to fair value periodically by independent property valuers. Subsequent additions are recorded at cost. The assessments of value are based on market conditions and market evidence available at the date of valuation and are carried out in accordance with NZ IFRS 13: Fair Value Measurement.

The properties owned by Yealands Wine Group Limited (YWG) were subject to a valuation as at 30 June 2022 by external, independent property valuer Colliers International, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation basis was a market-based direct sales comparison for the vineyards and a capitalised income approach for the winery.

Key assumptions include the assessed value of the Seaview Vineyard land and improvements ($172,200 per hectare) and the Seaview Winery which was valued on a Depreciated Replacement Cost basis at $26.1 million.

The fair value of the land, buildings, vineyard improvements and bearer plants owned by YWG Limited was assessed at $232.8 million, resulting in a $29.5 million uplift on the carrying value as at 30 June 2022. The valuation increase of $28.6 million was recognised through other comprehensive income (OCI) and recognised through the asset revaluation reserve, while a valuation increase of $0.9 million was the reversal of a previous impairment and was recognised through profit and loss, in accordance with NZ IAS 16 Property, Plant and Equipment.

The land and building assets (not including the reticulation system assets) owned by Marlborough Lines Limited (MLL) were subject to valuation as at 30 June 2022 by external, independent property valuer Alexander Hayward, having the appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation basis was a market-based direct comparison. A net valuation increase of $4.3 million was recognised through other comprehensive income and recognised through the asset revaluation reserve.

Management have considered and agree with, the appropriateness of the carrying value of these assets in the current year, including consideration of market comparable sales.

1.3 Critical Accounting Estimate – Impairment

The Company's Directors are of the view that there is no impairment in value existing in relation to the carrying values at balance date following the addition of new purchases at cost, annual depreciation charges and disposals in the usual course of business.

Performance

This Performance section provides information on how the Group earned its revenue and provides a breakdown of operating expenditure. Parent Company information has been provided as a note below to inform readers of how it has performed as an individual entity.

2. Parent Company Information

Statement of Comprehensive Income

For the year ended 30 June 2022

	Parent 2022 $000	Parent 2021 $000
CONTINUING OPERATIONS		
Revenue	47,523	45,675
Operating expenses	(30,974)	(29,055)
Operating surplus	**16,549**	**16,620**
EBITDA	**16,549**	**16,620**
Depreciation and amortisation	(9,557)	(9,388)
Finance income	660	698
Finance costs	(165)	(169)
Profit before tax expense	**7,487**	**7,761**
Income tax expense	(1,543)	(1,956)
Net profit for the period	**5,944**	**5,805**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss		
Asset revaluation	5,443	–
Tax effect of asset revaluation	(1,179)	–
Total comprehensive income for the period	**10,208**	**5,805**

Parent Company Statement of Financial Position Information

As at 30 June 2022

	Parent 30 June 2022 $000	Parent 30 June 2021 $000
Plant, property and equipment	252,973	244,301
Investments in subsidiaries and associates	134,121	133,621
Other assets	37,139	35,937
Total assets	**424,233**	**413,859**
Deferred tax liability	42,654	41,682
Other liabilities	9,480	8,486
Total liabilities	**52,134**	**50,168**
Share capital	29,026	29,026
Retained earnings and reserves	343,073	334,665
Total equity	**372,099**	**363,691**
Total equity and liabilities	**424,233**	**413,859**

3. Revenue

	Group 2022 $000	Group 2021 $000
Electricity network revenue	45,959	45,628
Electricity network discounts	(8,806)	(8,770)
Net electricity network revenue	37,153	36,858
Wine sales	92,998	98,752
External contracting revenue	4,478	3,683
Vested assets	1,712	1,477
Dividends from equity accounted associates	550	700
Other income	2,836	3,234
Operating revenue	**139,727**	**144,704**

Accounting Policy – Revenue Recognition

Revenue comprises the fair value of consideration received for the sale of goods and services, excluding GST, rebates and discounts and after eliminating sales within the Group.

Revenue is recognised as follows:

- Electricity network revenue is recognised at the fair value of services provided. This revenue stream relates to the provision of electricity distribution services. Revenue is recognised over time based on an output method as the service of electricity delivery is matched to the pattern of consumption. Electricity network discounts are allocated proportionately against electricity network revenue in accordance with the performance obligations of the posted discounts.
- Wine sales are recognised when control is passed to the buyer. Control is considered to be passed to the buyer at the time of delivery of the goods to the customer or at the Free on Board (FOB) port / delivery point or as otherwise contractually determined. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.
- External contracting revenue is recognised when control of the assets is transferred to the buyer. This is typically once the electrical assets are livened.
- Certain network extensions are gifted to the Company in return for the Company assuming maintenance responsibility, and are classified as vested assets. In such cases the Company capitalises the value of the asset at its fair value, being its current replacement cost and treats the difference between the actual cost to the Company and the fair value as income.
- Dividend revenue is recognised when the shareholder's right to receive payment is established.
- Revenue from the provision of contract wine processing services, included in Other Income, is recognised in the Consolidated Statement of Comprehensive Income over time as the wine making services are completed.

4. Expenditure

	Notes	Group 2022 $000	Group 2021 $000
PROFIT BEFORE TAX EXPENSE HAS BEEN ARRIVED AT AFTER CHARGING:			
Remuneration of Auditors – audit of the financial statements		224	216
Remuneration of Auditors – other assurance services		34	34
Directors' fees	24	829	752
Bad debts written off / (recovered)		35	(16)
Employee benefits – retirement gratuities		112	37
Employee benefits – employer superannuation contributions		770	720
Educational grants		40	15
Loss on disposal of plant, property and equipment		758	1,509
Lease expenses	7	228	223
External contracting expenses		3,823	3,610
Transmission costs		6,947	6,939
Wine cost of sales		70,608	73,745
NZ IFRS inventory fair value adjustment		(7,665)	5,245
Wine distribution and selling expenses		12,188	14,234
Other operating and administrative expenses		25,730	23,018
Total operating expenses		**114,661**	**130,280**

Long Term Assets

This Long Term Assets section provides information on the assets that create Group revenue and also the amounts spent on those assets.

5. Plant, Property and Equipment

Group	Electricity Reticulation Network at Fair Value $000	Land at Fair Value $000	Buildings at Fair Value $000	Vineyard Improvements at Fair Value $000	Bearer Plants at Fair Value $000	Vehicles Plant and Equipment at Cost $000	Capital Work in Progress $000	Total $000
COST OR VALUATION								
Balance at 1 July 2020	402,893	91,794	50,854	64,907	14,615	95,965	35,075	756,103
Additions	–	–	302	458	25	742	28,042	29,569
Transfers	11,539	–	2,103	3,077	–	6,317	(23,036)	–
Revaluation through OCI	–	1,904	1,278	3,057	298	–	2,137	8,674
Revaluation through P&L	–	–	–	–	–	–	(932)	(932)
Disposals / adjustments	(3,518)	(13,670)	(344)	(6,857)	(9,034)	(4,594)	(853)	(38,870)
Impairment released	–	–	–	–	–	1,590	–	1,590
Balance at 30 June 2021	**410,914**	**80,028**	**54,193**	**64,642**	**5,904**	**100,020**	**40,433**	**756,134**
Additions	–	–	–	–	–	1,266	18,579	19,845
Transfers	7,224	11,765	812	717	–	4,223	(24,741)	–
Reclassification	16,358	(3,890)	(12,468)	–	–	–	–	–
Revaluation through OCI	–	22,826	(2,356)	1,911	(434)	–	2,453	24,400
Revaluation through P&L	–	–	(22)	–	–	–	932	910
Disposals / adjustments	(2,071)	–	–	–	–	(5,835)	(87)	(7,993)
Balance at 30 June 2022	**432,425**	**110,729**	**40,159**	**67,270**	**5,470**	**99,674**	**37,569**	**793,296**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance at 1 July 2020	192,648	–	10,032	4,940	559	37,044	–	245,223
Depreciation expense	7,659	–	730	1,908	322	6,420	–	17,039
Disposals / adjustments	(2,425)	–	(14)	(652)	(426)	(2,500)	–	(6,017)
Impairment	–	–	–	–	–	(316)	–	(316)
Impairment released	–	–	–	–	–	1,590	–	1,590
Revaluation – write back	–	–	(667)	(5,076)	(364)	–	–	(6,107)
Balance at 30 June 2021	**197,882**	**–**	**10,081**	**1,120**	**91**	**42,238**	**–**	**251,412**
Depreciation expense	7,835	–	765	1,953	177	6,825	–	17,555
Reclassifiation	2,666	–	(2,666)	–	–	–	–	–
Disposals / adjustments	(1,402)	–	–	–	–	(5,461)	–	(6,863)
Revaluation – write back	–	–	(7,528)	(2,007)	(116)	–	–	(9,651)
Balance at 30 June 2022	**206,981**	**–**	**652**	**1,066**	**152**	**43,602**	**–**	**252,453**
NET BOOK VALUE								
Balance at 30 June 2021	213,032	80,028	44,112	63,522	5,813	57,782	40,433	504,722
Balance at 30 June 2022	**225,444**	**110,729**	**39,507**	**66,204**	**5,318**	**56,072**	**37,569**	**540,843**

Group	Electricity Reticulation Network at Fair Value $000	Land at Fair Value $000	Buildings at Fair Value $000	Vineyard Improvements at Fair Value $000	Bearer Plants at Fair Value $000	Vehicles Plant and Equipment at Cost $000	Capital Work in Progress $000	Total $000
FAIR VALUE ADJUSTMENT 30 JUNE 2021								
Revaluation through OCI	–	1,904	1,278	3,057	298	–	2,137	8,674
Revaluation – depreciation write back	–	–	667	5,076	364	–	–	6,107
Revaluation gain	**–**	**1,904**	**1,945**	**8,133**	**662**	**–**	**2,137**	**14,781**
FAIR VALUE ADJUSTMENT 30 JUNE 2022								
Revaluation through OCI	–	22,826	(2,356)	1,911	(434)	–	2,453	24,400
Revaluation through P&L	–	–	(22)	–	–	–	932	910
Revaluation – depreciation write back	–	–	7,528	2,007	116	–	–	9,651
Revaluation gain	**–**	**22,826**	**5,150**	**3,918**	**(318)**	**–**	**3,385**	**34,961**

	At Cost	At Fair Value	Total
CAPITAL WORK IN PROGRESS – BASIS OF MEASUREMENT			
Balance at 30 June 2021	3,377	37,056	40,433
Balance at 30 June 2022	**9,773**	**27,796**	**37,569**

Land and buildings (not including reticulation system assets), vineyard improvements and bearer plants were revalued to fair value as at 30 June 2022 as described in Note 2.3.

As at 30 June 2022, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 14).

Explanatory Note – Capitalisation of Depreciation

Depreciation relating to the vineyards and winery of YWG of $7.9 million (2021: $7.7 million) has been incurred in producing and processing wine during the period. This depreciation has been split between vintage and non-vintage depreciation and $4.7 million (2021: $5.5 million) of vintage depreciation has been capitalised into the cost of inventory. Non-vintage depreciation is expensed to wine cost of sales as it relates to the processing and dispatch of wine from previous vintages.

Explanatory Note – Vineyard sale

During the prior year, Yealands Estate Limited sold four vineyard properties located in the Awatere and Wairau Valleys. The total sale price for these four vineyard properties was $33.759 million plus GST, if any. The Group recognised a $3.2 million gain on sale of these properties in the year to 30 June 2021 and a further $1.2 million was recognised in the year to 30 June 2022, following the completion of certain sale conditions. The $0.9 million revaluation impairment recognised in the year to 30 June 2021 relates to expenditure incurred on a development which fulfills these conditions. These transactions account for $29.0 million of the prior year disposals from the land, buildings, vineyard improvements, bearer plants, vehicles, plant and equipment categories.

Explanatory Note – Land and buildings reclassification

In the current year, land and building assets that are related to electrical zone substations and radio communications sites owned by MLL have been reclassified from the land category and the building category and transferred to the electrical reticulation network category to better reflect their association with the electricity network cash generating unit.

Accounting Policy – Basis of Measurement

MLL's electricity reticulation network is measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers based on the discounted cash flow methodology.

Land, buildings, vineyard improvements and bearer plants are measured at fair value, including those vineyards that are classified as work in progress through to the point of full production. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers based on the comparable sales method.

The fair values are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings and the electricity distribution network are not materially different from their fair values.

The Group's plant and equipment assets (including vehicles) are recorded at cost less depreciation and impairment.

Accounting Policy – Changes to Valuation

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the asset revaluation reserve (through other comprehensive income), except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit and loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of property, plant and equipment is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Accounting Policy – Depreciation

Depreciation is provided on plant, property and equipment, including freehold buildings but excluding land.

Depreciation is calculated on assets so as to write off the cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The following depreciation methods and estimated useful lives are used in the calculation of depreciation:

Category	Method	Useful Life
Buildings	Straight line over	7 to 100 years
Electricity reticulation network	Straight line over	15 to 70 years
Plant, equipment and motor vehicles	Straight line over	2 to 33 years
Vineyard improvements	Straight line over	3 to 33 years
Bearer plants	Straight line over	33 years

The cost of assets constructed by the Group includes all materials used in construction, direct labour, any capitalised interest and an allowance for overheads.

Accounting Policy – Impairment

The Group reviews the carrying value of its tangible assets at balance date to determine whether there is any indication that the assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Assets acquired subsequent to the adoption of the above valuations are recorded at the value of the consideration given to acquire the asset and the value of other directly attributed costs which have been incurred in bringing the assets to the location and condition necessary for their intended service less subsequent depreciation.

The recoverable amount is the higher of fair value less the costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, then the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit and loss immediately unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. A reversal of an impairment loss is recognised in profit and loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. The Group considers that the electricity reticulation network represents a single cash generating unit for the purposes of impairment assessment.

Explanatory Note – Impact of Fair Value Measurement on Asset Values

Carrying amounts of plant, property and equipment that are measured at fair value, are shown below if they had been recognised under the cost model.

	Fair Value Category	Fair Value as at 30 June 2022 $000	Fair Value as at 30 June 2021 $000	Historic Cost Value as at 30 June 2022 $000	Historic Cost Value as at 30 June 2021 $000
Electricity reticulation network	Level 3	225,444	213,032	71,191	72,067
Land	Level 3	110,729	80,028	48,919	37,474
Buildings	Level 3	39,507	44,112	30,488	30,165
Vineyard Improvements	Level 2	66,204	63,522	37,622	37,540
Bearer Plants	Level 3	5,318	5,813	1,651	1,710
Capital Work in Progress	Level 3	27,796	37,056	25,976	35,851
Total		**474,998**	**443,563**	**215,847**	**214,807**

The categorisation of fair value measurements into the different levels of the fair value hierarchy depends on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement. Refer to the Statement of Accounting Policies for a description of the various fair value levels. Level 3 inputs are unobservable inputs for the asset or liability.

The carrying value of the assets recognised in the financial statements approximate their fair values. The fair values included in Level 3 categories above have been determined in accordance with generally accepted pricing models and there has been no change in the valuation technique used. Bearer plants are included in Level 3 of the fair value hierarchy as their fair value is determined by reference to market prices for each variety of grape grown in the local area and the market price paid to independent grape growers.

Adjustments to fair value were made as at 30 June 2022 and as at 30 June 2021. This is further discussed in the Critical Accounting Estimate Note 1.2.

6. Intangible Assets

Group	Easements $000	Software $000	Trademarks $000	Total $000
COST				
Balance at 1 July 2020	1,889	3,743	859	6,491
Additions	46	95	32	173
Disposals / transfers	–	(18)	–	(18)
Balance at 30 June 2021	**1,935**	**3,820**	**891**	**6,646**
Additions	34	121	85	240
Disposals / transfers	–	(468)	–	(468)
Balance at 30 June 2022	**1,969**	**3,473**	**976**	**6,418**
ACCUMULATED AMORTISATION AND IMPAIRMENT				
Balance at 1 July 2020	–	3,154	437	3,591
Amortisation expense	–	330	77	407
Disposals / transfers	–	(16)	–	(16)
Balance at 30 June 2021	**–**	**3,468**	**514**	**3,982**
Amortisation expense	–	221	46	267
Disposals / transfers	–	(468)	–	(468)
Balance at 30 June 2022	**–**	**3,221**	**560**	**3,781**
NET BOOK VALUE				
Balance at 30 June 2021	1,935	352	377	2,664
Balance at 30 June 2022	**1,969**	**252**	**416**	**2,637**

As at 30 June 2022, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 14).

Accounting Policy – Recognition and Amortisation

Easements obtained in relation to access, construction and maintenance of electricity reticulation system assets are capitalised as intangible assets to the extent of survey, legal and registration costs and any lump sum payments made to landowners in exchange for certain rights. Such easements capitalised represent a right in perpetuity, are considered to have an indefinite life and are not depreciated.

Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire and bring the software into service and it is amortised over its expected useful economic life. Costs associated with developing and maintaining computer software programmes are recognised as expenses when incurred. Software has a finite life and is amortised over the period of its life (5–8 years).

Trademarks are amortised on a straight-line basis in the Consolidated Statement of Comprehensive Income over their estimated useful lives, from the date that they are available for use. They have an estimated useful life of 10 years.

Explanatory note – Software as a Service (SaaS) treatment

NZ IFRS does not provide specific guidance on how a company purchasing cloud based technology should account for SaaS arrangements. The IFRS Interpretations Committee (IFRIC) published agenda decisions in March 2021 which have been used to support the Group's treatment of SaaS. On 1 July 2021, YWG retired its previous accounting software and introduced a cloud based ERP system for finance, production and customer services. The Group has assessed the accounting for upfront configuration and customisation costs incurred in system implementations and the resulting on-going costs of SaaS arrangements. In referencing the agenda decisions published by IFRIC, which clarified its interpretation of how current accounting standards apply to these types of arrangements, the Group and has expensed within profit and loss all the development costs which would had previously been capitalised during the year of $0.3m (prior year $1.3m). An assessment on the customisation of the software has been completed, with an assessment that the modifications do not warrant capitalisation to the Consolidated Statement of Financial Position.

Accounting Policy – Impairment

The recoverable amount is the higher of fair value less the costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Easement assets with indefinite useful lives are assessed annually for impairment as part of the Electricity Reticulation Network cash generating unit. The Group reviews the carrying values of its other intangible assets at balance date to determine whether there is any indication that the assets may have suffered an impairment loss.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, then the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit and loss immediately. A reversal of an impairment loss is recognised in profit and loss.

7. Leases

Group	Land and Vineyard Improvements $000	Buildings $000	Plant, Equipment and Motor Vehicles $000	Total $000
RIGHT-OF-USE ASSETS				
Opening Net Book Value 1 July 2020	2,903	814	565	4,282
Additions	–	–	357	357
Lease variation	486	–	–	486
Depreciation	(410)	(139)	(160)	(709)
Balance at 30 June 2021	**2,979**	**675**	**762**	**4,416**
Additions	–	1,292	49	1,341
Lease variation	–	(558)	(53)	(611)
Depreciation	(489)	(134)	(188)	(811)
Closing Net Book Value 30 June 2022	**2,490**	**1,275**	**570**	**4,335**
Cost	3,313	953	941	5,207
Accumulated depreciation	(334)	(278)	(179)	(791)
Closing Net Book Value 30 June 2021	**2,979**	**675**	**762**	**4,416**
Cost	3,216	1,292	939	5,447
Accumulated depreciation	(726)	(17)	(369)	(1,112)
Closing Net Book Value 30 June 2022	**2,490**	**1,275**	**570**	**4,335**
LEASE LIABILITY				
Opening Balance at 1 July 2020	2,949	840	565	4,354
Additions	–	–	357	357
Lease variation	438	–	–	438
Interest expense	93	26	14	133
Principal repayments	(468)	(148)	(165)	(781)
Closing Balance at 30 June 2021	**3,012**	**718**	**771**	**4,501**
Additions	–	1,292	56	1,348
Lease variation	2	(611)	(53)	(662)
Interest expense	70	23	14	107
Principal repayments	(545)	(146)	(209)	(900)
Closing Balance at 30 June 2022	**2,539**	**1,276**	**579**	**4,394**
Current – within 1 year	474	130	193	797
Non-current – 1 to 2 years	455	139	197	791
Non-current – 2 to 5 years	1,428	449	381	2,258
Non-current – 5 or more years	655	–	–	655
Closing Lease Liability 30 June 2021	**3,012**	**718**	**771**	**4,501**
Current – within 1 year	455	194	201	850
Non-current – 1 to 2 years	466	202	201	869
Non-current – 2 to 5 years	1,047	661	177	1,885
Non-current – 5 or more years	571	219	–	790
Closing Lease Liability 30 June 2022	**2,539**	**1,276**	**579**	**4,394**

	Group 2022 $000	Group 2021 $000
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Amortisation expense on right-of-use assets	165	159
Interest expense on lease liabilities	26	28
Expense relating to short-term leases	–	–
Expense relating to leases of low value assets	37	36
AMOUNTS CAPITALISED TO BIOLOGICAL WORK IN PROGRESS		
Amortisation expense on right-of-use assets	645	550
Interest expense on lease liabilities	81	105
Expense relating to short-term leases	–	–
Expense relating to leases of low value assets	–	–

Explanatory Note – Measurement

The Group's lease arrangements consist of an Auckland office lease, two Marlborough vineyard leases, one Hawkes Bay vineyard lease and the lease of vineyard plant and equipment. The Group has applied judgement in recognising leases under NZ IFRS 16. These judgements relate to the lease term (which can be complex where leases include a right of renewal or cancellation) and the incremental borrowing rate used to discount future minimum lease payments. Where a lease contract includes a right of renewal, the Group has included this in the right-of-use asset and lease liability unless it is clear that such lease agreement will not be renewed.

In determining the discount rate to measure the present value of the lease payments remaining, the Group has used the incremental borrowing rate of the lessee. When estimating this rate, the Group took into consideration the market interest rate and applied a risk factor to that rate.

Accounting Policy – Recognition and Measurement

The Group leases vineyards, office space and vineyard machinery. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. These lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset with a corresponding liability recognised at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each lease period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The Group has applied the exemptions allowed under NZ IFRS 16 for low value and short-term leases. This recognises payments for leases of 12 months or less or leases of a low value on a straight-line basis as an expense in the Consolidated Statement of Comprehensive Income.

Investments

This Investments section provides information on the various companies in the Group, including any acquisition or disposal undertaken.

8. Business Combinations

Subsidiaries Acquired

No subsidiaries have been acquired in the current or prior year.

Accounting Policy – Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Group, liabilities assumed by the Group from the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition, with the exception of deferred tax assets or liabilities which are recognised and measured in accordance with NZ IAS 12 Income Taxes. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is lower than fair value, a discount on acquisition is recognised. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the discount is credited to profit or loss in the period of acquisition.

9. Investments in Subsidiaries and Associates

9.1 Group Entities

Investments in subsidiaries and associates within the Group as at balance date were as follows:

	Year End	Effective Ownership 30 June 2022	Effective Ownership 30 June 2021
INVESTMENTS HELD BY MARLBOROUGH LINES LIMITED			
Nelson Electricity Limited (Associate)	31 March	50%	50%
Seaview Capital Limited	30 June	100%	100%
INVESTMENTS HELD BY SUBSIDIARIES OF MARLBOROUGH LINES LIMITED			
Energy Marlborough Limited	30 June	100%	100%
Seaview Water Group Limited	30 June	52%	52%
Yealands Wine Group Limited	30 June	100%	100%
Yealands Estate Limited	30 June	100%	100%
Yealands Estate Wines Limited	30 June	100%	100%
Yealands Estate Wines (Australia) Limited	30 June	100%	100%
Yealands Estate Wines (USA) Limited	30 June	100%	100%
Yealands Estate Wines (USA) LLC	30 June	100%	100%
Yealands Estate Wines (UK) Limited	30 June	100%	100%

All shares in MLL are held by the Trustees of the Marlborough Electric Power Trust. YWG is the parent entity of the last six companies in the table above.

9.2 Marlborough Lines Investments in Subsidiaries

	Parent 30 June 2022 $000	Parent 30 June 2021 $000
Investment in Seaview Capital Limited	121,951	121,951
Investment in Energy Marlborough Limited	500	–
Total investments in subsidiaries	**122,451**	**121,951**

Accounting Policy – Investments in Subsidiaries

Subsidiaries are all those entities over which the Group has control. The Group financial statements incorporate the financial statements of the entities that comprise the Group, being MLL and its subsidiaries, YWG and Energy Marlborough Limited. Consistent accounting policies are used in the preparation and presentation of the consolidated financial statements. In preparing the consolidated financial statements, all inter-company balances and transactions and unrealised gains arising within the Group are eliminated.

9.3 Marlborough Lines Investments in Associates

The Company acquired a 50% interest in Nelson Electricity Limited (NEL), an electricity network operator based in Nelson, on 19 June 1996.

	Group 30 June 2022 $000	Group 30 June 2021 $000
Investment in Nelson Electricity Limited shares	12,950	12,950
Less share repurchase (2001)	(2,500)	(2,500)
Plus share of associate revaluation	4,326	3,906
Less share of post acquisition results	159	21
Interest in associate (excluding goodwill)	**14,935**	**14,377**
Current balance associate goodwill	1,220	1,220
Total interest in associate (including goodwill)	**16,155**	**15,597**

Accounting Policy – Investments in Associates

Associate entities are those entities in which the Group has significant influence but not control. This is generally indicated through the holding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method in the Group financial statements. The Group's share of an associates post acquisition profits or losses is recognised in the Consolidated Statement of Comprehensive Income and its share of post acquisition movements in reserves is recognised in reserves.

Dividends received from associates are initially recognised in the Parent Company financial statements. Such dividends typically reduce the equity adjustment for the share of associates post acquisition profits.

9.4 Results of the Group's Associates

	31 March 2022 $000	31 March 2021 $000
A SUMMARY OF NELSON ELECTRICITY LIMITED'S RESULTS IS AS FOLLOWS:		
Assets as at 31 March	43,399	42,769
Liabilities as at 31 March	13,547	14,031
Revenue for year ended 31 March	9,253	9,380
Net profit after tax	1,375	1,461
THE GROUP'S SHARE OF THE RESULTS OF ITS ASSOCIATE IS AS FOLLOWS:		
Share of surpluses before tax	956	1,156
Less taxation	(268)	(426)
Less dividends / distributions received	(550)	(700)
Share of equity accounted net surplus	**138**	**30**
Plus other comprehensive income	420	–
Gain attributable to associate	**558**	**30**

Explanatory Note – Timing of Nelson Electricity Limited's Year End

The gain recognised in the Consolidated Statement of Comprehensive Income for NEL is for the 12-month period ended 31 March. The three-month difference in reporting period is not considered material to the Group's results.

Working Capital

This Working Capital section provides information on the assets that provide cash in the short-term and the liabilities that are due to be settled with that cash.

10. Trade and Other Receivables

	Group 30 June 2022 $000	Group 30 June 2021 $000
THE BALANCE OF ACCOUNTS RECEIVABLE COMPRISES:		
Trade debtors	24,498	22,561
GST receivable	–	557
Accrued income	763	374
Works under construction	914	727
Prepayments	1,164	844
Allowance for expected credit losses	(194)	(205)
Total	**27,145**	**24,858**

Accounting Policy – Recognition and Impairment

Trade receivables, including intergroup receivables, are valued at amortised cost less an allowance for expected credit losses. The amount of expected credit losses is updated at each balance date to reflect changes in credit risk since initial recognition. The expected credit loss on trade receivables is estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both the current as well as the forecast direction of general economic conditions at balance date. The Group assessed the impact of COVID-19 on trade receivables and adjusted the expected credit losses further in those receivable balances which were most likely impacted.

Impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due from its customers. Objective evidence of impairment includes financial difficulties of the customer, the probability that the customer will enter bankruptcy or financial reorganisation and default or delinquency in payments. When a trade receivable is considered uncollectable, it is written off against the allowance for expected credit losses. The amount of the loss is recognised in the Consolidated Statement of Comprehensive Income within operating expenses. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Explanatory Note – Carrying Value of Debtors

Included in the Group's trade receivables balance are debtors with a carrying value of $962,897 (2021: $1,382,714) which are past due at balance date. The Group has provided for $193,634 (2021: $204,994) of this balance through the allowance for credit losses in the table above. The remaining amount has not been provided for as there has been no significant change in the credit quality and the amounts are considered recoverable. Further information is provided in Note 20.5.

11. Inventories and Biological Work in Progress

	Group 30 June 2022 $000	Group 30 June 2021 $000
Electricity reticulation stock	6,444	6,733
Bulk wine	47,849	37,452
Bottled wine	6,348	7,407
Packaging and labels	720	425
Biological work in progress	3,555	4,229
Total	**64,916**	**56,246**

As at 30 June 2022, some assets of the Group were subject to a registered general security agreement to secure bank loans (see Note 14).

Accounting Policy – Valuation

Reticulation stock comprises of network system spares and materials and are valued on the basis of the lower of cost and net realisable value. Cost is calculated on the basis of the weighted average of purchase costs. An allowance is made for damaged and obsolete inventory.

Wine inventories are valued at the lower of cost or deemed cost and net realisable value. Cost is calculated on an average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and estimated costs to be incurred in marketing, selling and distribution.

Included in the cost of wine inventory is the fair value of the grapes (agricultural produce) at the time the grapes are harvested. Inventory costs also include a systematic allocation of appropriate overheads, including winery and vineyard costs and depreciation, that relate to bringing inventories to their present location and condition. The allocation of production overheads is based on the normal capacity of the production facilities.

The deemed cost for the Group's agricultural produce (grapes) is fair value at harvest date less estimated point-of-sale costs (if any) in accordance with NZ IAS 41 Agriculture. Fair value of grapes is determined by reference to the market prices of grapes in the local region in which the grapes are grown, at the time of harvest.

The growth on the vines in the period from harvest to balance date cannot be reliably measured due to the lack of market information and variables in completing the biological transformation process between balance date and the time of harvest. As allowed under NZ IAS 41, the cost of agricultural activity in the period to 30 June has been recognised as work in progress for the next harvest. This assumes the cost of the agricultural activity approximates fair value in determining the value of the biological transformation that has occurred in that period.

12. Trade and Other Payables

	Group 30 June 2022 $000	Group 30 June 2021 $000
IN CURRENT LIABILITIES THE BALANCE OF TRADE AND OTHER PAYABLES COMPRISES:		
Trade creditors	24,603	17,479
Provision for discount	2,282	2,143
GST payable	465	424
Income in advance	1,406	1,054
Retailer prudential security held in Trust	11	11
Total	**28,767**	**21,111**

Accounting Policy – Recognition

Trade payables and other accounts payable are recognised at fair value when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services, and subsequently at amortised cost.

13. Employee Entitlements

	Group 30 June 2022 $000	Group 30 June 2021 $000
Employee entitlements	3,363	2,296
Total	**3,363**	**2,296**

The provision for employee entitlements represents annual leave and a provision for bonuses.

Accounting Policy – Recognition

Provision is made for employee entitlements accruing in relation to wages and salaries, annual leave and retiring gratuities when it is probable that settlement will be required and they are capable of being measured reliably.

Accounting Policy – Measurement

Employee benefits expected to be settled within the next 12 months are measured at the amounts expected to be paid when the obligations are settled. Provisions made in relation to employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees to the Group up to balance date. In relation to retirement gratuities, the present value calculations also provide for the probability of the employees completing employment to the point of entitlement (retirement).

Contributions to defined contribution superannuation schemes are expensed when incurred.

Debt and Equity

This Debt and Equity section provides information on how the Group's operations are financed and the cost of that financing through interest and dividend payments.

14. Borrowings

	Group 30 June 2022 $000	Group 30 June 2021 $000
Current	2,000	11,000
Non-current	69,600	69,600
Total	**71,600**	**80,600**

Terms and repayments schedule

The terms and repayment schedule of outstanding facilities were as follows:

As at 30 June 2022

Lender	Classification	Nominal Interest Rate	Maturity	Currency	Facility Limit $000	Drawn at Balance Date $000
ASB Bank Limited	Current	2.76%	Nov–22	NZD	25,000	2,000

Lender	Classification	Nominal Interest Rate	Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	Non–current	3.47%	Jun–25	NZD	25,000	25,000
ASB Bank Limited	Non–current	3.40%	Jun–26	NZD	6,200	6,200
ASB Bank Limited	Non–current	4.29%	Jun–26	NZD	18,800	18,800
ASB Bank Limited	Non–current	3.90%	Jun–27	NZD	5,700	5,700
ASB Bank Limited	Non–current	3.46%	Jun–27	NZD	3,000	3,000
ASB Bank Limited	Non–current	3.73%	Jun–27	NZD	3,100	3,100
ASB Bank Limited	Non–current	4.07%	Jun–27	NZD	6,600	6,600
ASB Bank Limited	Non–current	4.46%	Jun–27	NZD	1,200	1,200
Total non-current interest-bearing liabilities					**69,600**	**69,600**

As at 30 June 2021

Lender	Classification	Nominal Interest Rate	Maturity	Currency	Facility Limit $000	Drawn at Balance Date $000
ASB Bank Limited	Current	1.41%	Nov–21	NZD	25,000	11,000

Lender	Classification	Nominal Interest Rate	Maturity	Currency	Face Value $000	Carrying Amount $000
ASB Bank Limited	Non–current	1.85%	Jul–22	NZD	45,000	45,000
ASB Bank Limited	Non–current	1.78%	Jul–22	NZD	6,200	6,200
ASB Bank Limited	Non–current	2.14%	Jul–23	NZD	5,700	5,700
ASB Bank Limited	Non–current	2.08%	Jul–23	NZD	3,000	3,000
ASB Bank Limited	Non–current	2.11%	Jul–23	NZD	3,100	3,100
ASB Bank Limited	Non–current	2.10%	Jul–23	NZD	6,600	6,600
Total non-current interest-bearing liabilities					**69,600**	**69,600**

Accounting Policy – Recognition and Classification

Borrowings are recorded initially at fair value plus any transaction costs. Borrowings are subsequently recognised at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. Borrowings are classified as non-current liabilities where the Group holds an agreement with the lender which includes the right to settle the liability in an accounting period at least 12 months after the balance date.

Borrowing costs are expensed using the effective interest rate method. No borrowing costs have been capitalised.

Explanatory Note – Borrowing facilities

YWG is the borrower for the term borrowing of the Group.

The current borrowings amount relates to a Working Capital Facility. The remaining ASB Bank Limited term facilities range in remaining terms from 3 years through to 5 years. ASB Bank Limited holds a security over leasehold improvements and freehold property titles of YWG. YWG and its subsidiaries have provided an unconditional and irrevocable guarantee to ASB Bank Limited.

As at 30 June 2022, there is no guarantee or security provided by MLL in relation to the term facilities of YWG.

As at 30 June 2022, MLL had a standby $30 million facility with ASB Bank Limited, with an expiry date of 16 June 2025. This facility is secured by a general security deed over the property of MLL. At balance date, this facility had not been drawn down.

15. Net Financing Income

	Group 2022 $000	Group 2021 $000
FINANCIAL INCOME		
Interest income on bank deposits	210	57
Total finance income	**210**	**57**
FINANCIAL EXPENSES		
Interest cost – term borrowings	(2,770)	(4,057)
Interest cost – other	(164)	(169)
Unrealised interest rate swap gain	6,548	4,099
Total finance expenses	**3,614**	**(127)**
REALISED / UNREALISED FOREIGN EXCHANGE GAINS / (LOSSES)		
Realised foreign exchange gain	2,929	1,960
Unrealised foreign exchange (loss) / gain	(3,743)	(217)
Total (losses) / gains on financial instruments	**(814)**	**1,743**

Accounting Policy – Revenue Recognition

Interest income is recognised in the Consolidated Statement of Comprehensive Income as it accrues, using the effective interest method.

16. Share Capital

	Group 30 June 2022 $000	Group 30 June 2021 $000
28 million Ordinary Shares	29,026	29,026
Total	**29,026**	**29,026**

Explanatory Note – Share Capital

The Company's shares are held by the Trustees of the Marlborough Electric Power Trust.

The Company issued 28 million $1 shares on incorporation in 1993. A small residual value in a share premium reserve was previously absorbed into the share capital value to arrive at the present value. The authorised capital is 28 million shares. All shares are fully paid up.

All shares carry equal rights to distributions.

17. Revaluation Reserves and Foreign Currency Translation Reserve

	Notes	Group 30 June 2022 $000	Group 30 June 2021 $000
Properties Revaluation Reserve	17.1	143,557	112,229
Foreign Currency Translation Reserve (FCTR)	17.2	23	(280)
Total		**143,580**	**111,949**

17.1 Revaluation Reserves

	Group 2022 $000	Group 2021 $000
PROPERTIES REVALUATION RESERVE		
Balance at the beginning of the year	112,229	113,317
Revaluation gains transferred to retained earnings upon sale	–	(14,485)
Increase in fair value of land, buildings, vineyard improvements and bearer plants, net of tax	31,328	13,397
Balance at end of the year	**143,557**	**112,229**

Explanatory Note – Revaluation Reserve

The properties revaluation reserve arises on revaluation of land, buildings, vineyard improvements, bearer plants and electricity reticulation network assets to fair value. When these assets are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings.

	Group 30 June 2022 $000	Group 30 June 2021 $000
THE GROUP PROPERTIES REVALUATION RESERVE COMPRISES REVALUATIONS IN THE FOLLOWING CATEGORIES:		
Land, buildings, vineyard improvements and bearer plants	103,812	72,904
Electricity reticulation network	35,639	35,639
Investments in associates	4,106	3,686
Total	**143,557**	**112,229**

17.2 Foreign Currency Translation Reserve (FCTR)

	Group 2022 $000	Group 2021 $000
Balance at the beginning of the year	(280)	(173)
Movement for the year	303	(107)
Balance at end of the year	**23**	**(280)**

Accounting Policy – Foreign Currency Transactions

For the purposes of presenting consolidated financial statements, the balance sheets of foreign subsidiaries are translated into New Zealand dollars using exchange rates prevailing at balance date. Income and expense items are translated at the exchange rates ruling at the date of the transaction. Exchange differences relating to the translation of assets and liabilities from their functional currencies to the Group's presentation currency (i.e., New Zealand dollars) are recognised directly in other comprehensive income and accumulated in the FCTR.

18. Non-Controlling Interests

Explanatory Note – Non-Controlling Interests

The non-controlling interest recognised within equity as at balance date relates to an outside interest in Seaview Water Group Limited.

Accounting Policy – Non-Controlling Interest

Non-controlling interests that are present ownership interests and entitle their owners to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in NZ IFRS.

19. Dividends

	Group 2022 $000	Group 2021 $000
AMOUNTS RECOGNISED AS DISTRIBUTIONS TO EQUITY HOLDERS IN THE PERIOD:		
Total dividends ($000)	1,800	1,800
Cents per share	6.429	6.429

Explanatory Note – Dividends

The dividends in the table above are those from MLL to the Marlborough Electric Power Trust. Dividends from subsidiaries to MLL, if any, are eliminated on consolidation and are not included in the above table.

Financial Risk Management

This Financial Risk Management section provides information on the financial risks facing the Group, the sensitivity of the results to those risks and how those risks are managed. The Financial Instruments note provides information on how the assets and liabilities of the Group are measured.

20. Financial Risk Management

20.1 Financial Risk Management

The Group is exposed to financial risks relating to the operations of the Group. These risks include credit risk, liquidity risk, market risk (including currency risk and interest rate risk) and agricultural risk.

The agricultural activity of the Group's subsidiary YWG consists of the management of vineyards to produce grapes for use in the production of wine. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. Yealands' strategy to manage this financial risk is to actively review and manage its working capital requirements.

The Group maintains credit facilities at a level sufficient to fund working capital during the period between cash expenditure and cash inflow. At balance date, the Group had unused credit facilities in the form of undrawn bank loan facilities of $53.6 million (2021: $45.6 million).

20.2 Market Risk Management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign currency exchange contracts to hedge the exchange rate risk arising on the export of wine principally to the United States, the United Kingdom, the European Union and Australia; and
- Interest rate swaps to hedge the risk of changes in interest rates.

20.3 Foreign Currency Risk Management

The Group undertakes certain transactions denominated in foreign currencies and therefore exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved parameters utilising forward foreign currency exchange contracts.

	Group 30 June 2022 $000	Group 30 June 2021 $000
FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES		
Cash and cash equivalents	731	1,073
Trade and other receivables	5,438	9,234
Trade and other payables	(11)	(995)
Total	**6,158**	**9,312**

Sensitivity Analysis

The Group is mainly exposed to Euros (EUR), Pound Sterling (GBP), Australian dollars (AUD) and US Dollars (USD). The following sensitivity analysis shows the impact on the consolidated net surplus of a change of 10% in the New Zealand dollar against the respective major currencies, with all other variables remaining constant.

Any change in the net surplus for the period would result in a corresponding movement in equity. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for the listed percentage change in foreign currency rates.

	$000 AUD	$000 EUR	$000 GBP	$000 USD	$000 Other
CHANGE IN NEW ZEALAND DOLLAR AGAINST FOREIGN CURRENCY					
Impact on Group 2022 net surplus:					
10% increase	(90)	(189)	(29)	(225)	(27)
10% decrease	110	231	35	274	33
Impact on Group 2021 net surplus					
10% increase	(100)	(538)	(69)	(124)	(15)
10% decrease	122	658	84	152	18

Forward Foreign Currency Exchange Contracts

The Group's policy is to enter into forward foreign currency exchange contracts to cover specific foreign currency payments and receipts up to 100% of the 12-month exposure generated. The Group also enters into forward foreign currency exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to five years within defined percentages for each 12-month forecast period with provision extended beyond these in certain market conditions. Forward foreign currency exchange contracts are measured at fair value through the Consolidated Statement of Comprehensive Income. The fair value of forward foreign currency exchange contracts is based on market values of equivalent instruments at balance date.

	Group 30 June 2022 $000	Group 30 June 2021 $000
NOTIONAL PRINCIPAL OF OUTSTANDING CURRENCY EXCHANGE CONTRACTS		
AUD	5,531	4,778
CAD	2,592	868
EUR	22,731	43,872
GBP	23,836	8,023
USD	17,516	6,555
Total	**72,206**	**64,096**

20.4 Interest Rate Risk Management

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or investing.

The Group's short term deposits are at fixed interest rates and mature within one year.

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group through maintaining a mix between fixed and floating rate borrowings and the use of interest rate swap contracts. Hedging activities are evaluated regularly with the assistance of independent advice to take into account interest rate views and defined risk appetite.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest Rate Sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at balance date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The sensitivity analysis shows the impact on the Group's consolidated net surplus if interest rates had been 2% lower or higher, with all other variables remaining constant. Any change in the net surplus for the period would result in a corresponding movement in equity.

	Group 2022 $000	Group 2021 $000
CHANGE IN INTEREST RATE %		
Impact on Group net surplus:		
2.0% increase	(1,139)	(611)
2.0% decrease	1,139	611

The Group's sensitivity to interest rates has increased during the year due to a reduction in interest rate swap contracts. This has resulted in an increase in debt exposed to floating interest rates.

Interest Rate Swap Contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to hedge the risk of changing interest rates on current and non-current term borrowings held. The fair values of interest rate swaps are based on market values of equivalent instruments as at balance date, as disclosed below.

	Group 30 June 2022 $000	Group 30 June 2021 $000
Notional principal of outstanding contracts	50,000	50,000

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are used to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. These are measured at fair value through the Consolidated Statement of Comprehensive Income. The interest rate swaps and the interest payments on the loan occur simultaneously on a quarterly basis. The floating rate on the interest rate swaps is the three month BKBM rate. The Group settles the difference between the fixed and floating interest rate on a net basis.

The interest rates applicable to the interest rate swap contracts during the year were 4.02% to 4.15% per annum (2021: 4.02% to 4.15%).

20.5 Credit Risk Management

Credit risk is the risk that an outside party will not be able to meet its obligations to the Group resulting in financial loss to the Group.

Financial instruments which potentially subject the Group to concentrations of credit risk consist principally of cash deposits, short term deposits and trade receivables. The maximum credit risk is the book value of these financial instruments. The Group considers the risk of non-recovery of these amounts to be minimal. The Group places its cash deposits with high credit quality financial institutions.

Credit risk exists in respect of accounts receivable. In respect of its electricity business, the Group is able to impose bond requirements on retailers trading across its network in accord with the Use of System Agreements entered into with the retailers. In respect to wine sales, the Group has a policy of trading with customers for which trade credit insurance has been granted by the Group's trade credit insurance provider, guarantees received or on cash terms.

Credit exposure is monitored on an ongoing basis and within counterparty limits that have been approved by the Group's trade credit insurance provider. The amounts presented in the Consolidated Statement of Financial Position are net of allowances for expected credit losses, estimated by the Group's management based on prior experience and their views in relation to the current trading environment. See also Note 10.

The Group has applied the simplified approach in NZ IFRS 9 Financial Instruments to measure the lifetime expected credit loss of trade receivables. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of debtors, adjusted as appropriate to reflect current conditions and estimates for future economic conditions.

	Group 30 June 2022		Group 30 June 2021	
	Gross $000	Impairment $000	Gross $000	Impairment $000
STATUS OF TRADE RECEIVABLES				
Not past due	17,564	(7)	18,505	–
Current	5,971	(0)	2,673	–
30 days overdue	331	(3)	992	–
60 days overdue	130	(4)	74	–
90 days overdue	502	(180)	316	(205)
Total	**24,498**	**(194)**	**22,561**	**(205)**

20.6 Liquidity Risk Management

Liquidity risk is the risk that the Group may not have the financial ability to meet payment commitments as they fall due.

The Group assesses its liquidity requirements on a regular basis and has funding arrangements in place to cover short-term variations and shortfalls in operating cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which the Group can be required to pay.

	Less than 1 year $000	1-2 years $000	2-5 years $000	Over 5 years $000
2022 CONTRACTUAL MATURITY				
Trade and other payables	28,767	–	–	–
Other borrowings	945	55	–	–
Interest cost on term debt	4,258	4,053	7,679	265
Borrowings	2,000	–	69,600	–
2021 CONTRACTUAL MATURITY				
Trade and other payables	21,111	–	–	–
Other borrowings	1,167	180	55	–
Interest cost on term debt	1,768	1,246	108	–
Borrowings	11,000	51,200	18,400	–

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows / (outflows) on the interest rate swaps that settle on a net basis and the undiscounted gross inflows / (outflows) on those forward exchange contracts that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined independently by the counterparty to the instruments as at balance date.

	Less than 6 Months $000	6-12 Months $000	1-2 Years $000	Over 2 Years $000
2022 LIQUIDITY ANALYSIS				
Interest rate swaps – net settled cash outflows	253	303	606	2,268
Forward exchange contracts – cash outflows	10,308	17,936	30,464	13,498
2021 LIQUIDITY ANALYSIS				
Interest rate swaps – net settled cash outflows	366	501	1,711	8,856
Forward exchange contracts – cash outflows	13,944	18,890	22,127	9,135

20.7 Fair Values

The carrying amount of cash and cash equivalents, trade receivables, trade payables and non-current borrowings and other financial assets and liabilities reflect their fair values. The fair values of financial assets and liabilities are determined as follows:

- the fair value of financial assets and liabilities with standard terms and conditions and traded on active markets is determined with reference to the quoted market prices; and
- the fair value of derivative instruments is calculated based on discounted cash flows using market inputs.

Investments in subsidiaries and equity accounted investments have not been fair valued as there is no observable market price.

Fair value measurement of financial instruments recognised in the Consolidated Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable, consistent with the level definitions as outlined in the Statement of Accounting Policies.

	Fair Value Category	Group 30 June 2022 $000	Group 30 June 2021 $000
Derivative financial assets – current	Level 2	814	1,549
Derivative financial assets – non-current	Level 2	781	2,034
Total financial assets		**1,595**	**3,583**
Derivative financial liabilities – current	Level 2	(828)	(125)
Derivative financial liabilities – non-current	Level 2	(1,292)	(6,788)
Total financial liabilities		**(2,120)**	**(6,913)**
Net financial liability		**(525)**	**(3,330)**

The financial assets and liabilities of the Group that are measured at fair value subsequent to initial recognition are included in Level 2 as the fair value of these instruments is not quoted on an active market and is determined by using valuation techniques. These valuation techniques rely on observable market data and are provided by ASB Bank Limited.

There have not been any transfers into or out of the fair value hierarchy.

Any gain or loss resulting from fair value measurement is recognised in the Consolidated Statement of Comprehensive Income.

	Group 2022 $000	Group 2021 $000
FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS		
Foreign currency forward contracts	(372)	3,371
Interest rate swaps	(153)	(6,701)
Net financial liability	**(525)**	**(3,330)**

20.8 Capital Risk Management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern. The capital structure comprises share capital (see Note 16), reserves and retained earnings (see Note 17). The Group keeps its capital structure under review throughout the year.

YWG and MLL are subject to a number of banking covenants in relation to the term debt facilities outlined in Note 14. All banking covenants have been complied with during the year.

The Group's objective is to provide returns for its shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to retain or modify the capital structure, the Group may adjust the amount of dividends paid to its shareholder or sell assets to reduce debt.

The Group's policies in respect of capital management and allocation are reviewed regularly by management.

21. Financial Instruments

21.1 Classification of Financial Instruments

Group as at 30 June 2022

	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
FINANCIAL ASSETS				
Current assets				
Cash and cash equivalents	2,212	–	–	2,212
Short-term deposits	12,094	–	–	12,094
Trade and other receivables	25,981	–	–	25,981
Derivatives	–	814	–	814
Non-current assets				
Derivatives	–	781	–	781
Total financial assets	**40,287**	**1,595**	**–**	**41,882**

	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
FINANCIAL LIABILITIES			
Current liabilities			
Trade and other payables	–	26,896	26,896
Derivatives	828	–	828
Term borrowings	–	2,000	2,000
Non-current liabilities			
Derivatives	1,292	–	1,292
Term borrowings	–	69,600	69,600
Total financial liabilities	**2,120**	**98,496**	**100,616**

Group as at 30 June 2021

	Loans and Receivables $000	Held for Trading (FVTPL) $000	Other Amortised Cost $000	Total Carrying Amount $000
FINANCIAL ASSETS				
Current assets				
Cash and cash equivalents	5,365	–	–	5,365
Short-term deposits	8,500	–	–	8,500
Trade and other receivables	23,457	–	–	23,457
Derivatives	–	1,549	–	1,549
Non-current assets				
Derivatives	–	2,034	–	2,034
Total financial assets	**37,322**	**3,583**	**–**	**40,905**

	Held for Trading (FVTPL) $000	Other Financial Liabilities $000	Total Carrying Amount $000
FINANCIAL LIABILITIES			
Current liabilities			
Trade and other payables	–	20,687	20,687
Derivatives	125	–	125
Term borrowings	–	11,000	11,000
Non-current liabilities			
Derivatives	6,788	–	6,788
Term borrowings	–	69,600	69,600
Total financial liabilities	**6,913**	**101,287**	**108,200**

GST Payable, GST Receivable, Income in Advance and Prepayments do not meet the Financial Instrument definition and are not included above.

Accounting Policy – Financial Instruments

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Interest and dividends are classified as expenses or as distributions of profit consistent with the Consolidated Statement of Financial Position classification of the related debt or equity instruments or component parts of compound instruments.

Financial instruments are not offset unless there is a legally enforceable right to offset.

Accounting Policy – Derivative Financial Instruments

From time to time the Group enters into interest rate swap contracts and forward foreign currency contracts to hedge its exposure to interest rate and foreign exchange rate risk. Interest rate swaps and forward foreign exchange contracts are considered to be a Level 2 fair value measurement financial instrument. Such financial instruments are those derived from inputs that are observable for the instrument either directly or indirectly.

The Group has not designated any derivatives as hedges for hedge accounting purposes. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at balance date. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately. This is known as Fair Value Through the Profit and Loss (FVTPL).

The fair values of these financial derivatives are determined by reference to the market interest rates and market exchange rates and the resulting gain or loss that would accrue if the derivative was terminated at balance date.

Other

This section provides other information including the Group's tax status, transactions with related parties, remuneration of Directors and key management personnel, and developments post balance date.

22. Taxation

22.1 Income Tax

	Group 2022 $000	Group 2021 $000
Tax expense comprises:		
Current tax expense	2,691	2,912
Deferred tax expense relating to the origination and reversal of temporary differences	3,072	92
Tax expense	**5,763**	**3,004**
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit Before Tax from Continuing Operations	**20,294**	**8,467**
Income tax applying the company tax rate of 28%	5,682	2,371
Plus / (less) taxation adjustments:		
Non-deductible expenses and deferred revenue	(16)	550
Asset capitalised for tax purposes	–	363
Net benefit of imputation credits	136	(272)
Equity accounted earnings of associates	(39)	(8)
Tax expense recognised in the Statement of Comprehensive Income	**5,763**	**3,004**

Accounting Policy – Recognition and Measurement

Current tax is based on the net profit for the period adjusted for non deductible expenditure and non-assessable income. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

22.2 Deferred Taxation

Group for the year ended 30 June 2022

	Opening Balance $000	Charged to Income $000	Charged to OCI $000	Closing Balance $000
DEFERRED TAX LIABILITIES				
Plant, property and equipment	51,123	1,204	3,143	55,470
Inventory	191	2,146	–	2,337
	51,314	**3,350**	**3,143**	**57,807**
DEFERRED TAX ASSETS				
Provisions for employee entitlements, retirement obligations and doubtful debts	(737)	(333)	–	(1,070)
Leases	(38)	21	–	(17)
Doubtful debts and impairment losses	(13)	34	–	21
	(788)	**(278)**	**–**	**(1,066)**
Net deferred tax liability	**50,526**	**3,072**	**3,143**	**56,741**

Group for the year ended 30 June 2021

DEFERRED TAX LIABILITIES				
Plant, property and equipment	49,005	734	1,384	51,123
Inventory	1,660	(1,469)	–	191
	50,665	**(735)**	**1,384**	**51,314**
DEFERRED TAX ASSETS				
Provisions for employee entitlements, retirement obligations and doubtful debts	(873)	136	–	(737)
Tax losses	(684)	684	–	–
Leases	(20)	(18)	–	(38)
Doubtful debts and impairment losses	(38)	25	–	(13)
	(1,615)	**827**	**–**	**(788)**
Net deferred tax liability	**49,050**	**92**	**1,384**	**50,526**

Accounting Policy – Recognition and Measurement

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying values of the assets and liabilities in the consolidated financial statements and the corresponding tax bases of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

A deferred tax liability is not recognised in relation to any taxable temporary differences arising from goodwill or in relation to temporary differences arising from the initial recognition of assets or liabilities which affect neither taxable income nor accounting profit. Similarly, deferred tax liabilities are not recognised where temporary differences arise on acquisition of subsidiaries, associates and joint ventures where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets or liabilities giving rise to them are realised or settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax liabilities and assets reflects the tax consequences that reflect how the Group expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company or Group intends to settle its current tax assets and liabilities on a net basis. No other assets and liabilities have been offset unless specifically permitted by accounting standards.

Current and deferred tax is recognised as an expense or income in the Consolidated Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the current or deferred tax is also recognised directly in equity or where it arises from the initial accounting for a business combination in which case it is taken into account in the determination of goodwill or excess.

22.3 Imputation Credit Account

	Group 2022 $000	Group 2021 $000
Balance at beginning of period	67,423	65,614
Attached to dividends paid in the period	(700)	(700)
Attached to dividends received	700	272
Income tax payments during the period	1,990	2,237
Balance at end of period	**69,413**	**67,423**

23. Related Parties

23.1 Marlborough Electric Power Trust

The Company pays dividends to its shareholder the Marlborough Electric Power Trust, as outlined in Note 19.

23.2 Parties Associated with Group Directors

Related party	Relationship	Product Sold or Services Rendered $000	Product Purchased or Services Received $000	Balance Receivable $000	Balance Payable $000
MARLBOROUGH LINES LIMITED DIRECTOR RELATIONSHIPS – 2022					
Nikau Drive Limited	Director	606	–	302	–
Outer Limits Limited	Director	48	–	26	–
Precast Systems Limited	Director	–	9	–	–
Robinson Construction Limited	Director	–	37	–	–
Whatamonga Farm Limited	Director	–	1	–	–
YEALANDS WINE GROUP LIMITED DIRECTOR RELATIONSHIPS – 2022					
Tinpot Hut Wines Limited	Director	30	–	–	–
MARLBOROUGH LINES LIMITED DIRECTOR RELATIONSHIPS – 2021					
Dew & Company Limited	Director	–	5	–	–
Outer Limits Limited	Director	470	–	–	–
Nikau Drive Limited	Director	426	–	–	–
Precast Systems Limited	Director	–	16	–	–
YEALANDS WINE GROUP LIMITED DIRECTOR RELATIONSHIPS – 2021					
None		–	–	–	–

Directors fees paid to Directors are disclosed in Note 24.

All products and services rendered and received were completed on normal arms-length commercial terms.

Explanatory Note – Related Party Transactions

The amounts receivable or payable included in the disclosure above are inclusive of GST (if any).

Nikau Drive Limited and Outer Limits Limited (entities associated with Phil Robinson) are property development companies, to which MLL provides electrical reticulation services.

Precast Systems Limited and Robinson Construction Limited (entities associated with Phil Robinson) provide construction services to MLL.

Whatamonga Farm Limited (entity associated with Ivan Sutherland) has a MLL radio hut located on its property and is paid a lease payment.

Tinpot Hut Wines Limited (entity associated with Matt Thompson) bought wine making products from YWG.

Dew and Company Limited (entity associated with David Dew) provides legal advice to MLL. David Dew retired as a director of MLL on 31 March 2021.

The Group did not undertake any other transactions with parties associated with Directors of the Group.

23.3 Subsidiary Companies

	2022 $000	2021 $000
ENERGY MARLBOROUGH LIMITED		
Fees paid to Marlborough Lines Limited	16	–
YEALANDS WINE GROUP LIMITED		
Dividend income paid to Marlborough Lines Limited	1,250	–
Purchases from Yealands Wine Group Limited	3	4
Electricity assets paid for by Yealands Wine Group Limited	303	409
Interest income paid or payable to Marlborough Lines Limited	450	641
Amounts receivable from Yealands Wine Group Limited	9,111	10,118

Explanatory Note – Inter-Company loan

MLL provides YWG with an inter-company loan, with interest payable monthly.

23.4 Associate Entities

	2022 $000	2021 $000
NELSON ELECTRICITY LIMITED		
Director's fees paid to Marlborough Lines Limited	22	14
Dividend income paid to Marlborough Lines Limited	550	700
Management fees charged to Nelson Electricity Limited by Marlborough Lines Limited	102	102
Amounts owed by Nelson Electricity Limited	82	78

Explanatory Note – Associate Entities

NEL is considered an associate company for accounting purposes by virtue of MLL owning 50% of that company's shares. Effective control is shared with one other shareholder. During the period, MLL provided management and accounting services to NEL. These services were charged at commercial rates.

24. Key Management Personnel

The compensation of the Directors and Executives, being the key management personnel of the Group, is set out below.

	Group 2022 $000	Group 2021 $000
Directors' fees	829	752
Salaries and short term employee benefits	4,220	3,746
Compensation during the period	**5,049**	**4,498**

	Group 30 June 2022 $000	Group 30 June 2021 $000
Retirement benefits accrued as at balance date	156	153

25. Reconciliation of Profit to Net Cash Generated from Operating Activities

	Group 2022 $000	Group 2021 $000
Profit for the year from continuing operations	**14,531**	**5,463**
ADD / (LESS) NON-CASH ITEMS		
Depreciation and amortisation	18,670	17,452
Fair value adjustment to inventory	(7,665)	5,245
Income from vested assets and capital contributions	(1,902)	(2,419)
Revaluation of vineyard assets through P&L	(910)	932
Other non cash items	(1,962)	(3,166)
NON-CASH ITEMS IN RELATION TO INVESTING / FINANCING ACTIVITIES		
Share of associate net profit	(138)	(30)
Gain on sale of fixed assets	(479)	(1,642)
Current charge to deferred taxation	2,162	1,024
CHANGES IN WORKING CAPITAL ITEMS		
(Increase) / decrease in assets		
(Increase) / decrease in accounts receivable	(4,767)	2,921
(Increase) / decrease in inventories	(1,005)	8,397
Increase / (decrease) in liabilities		
Increase / (decrease) in trade and other payables	8,075	(4,841)
Increase in tax payable	4,281	1,936
Increase / (decrease) in employee entitlements	1,067	(143)
(Decrease) in finance lease payable	(368)	(587)
Net cash generated from operating activities	**29,590**	**30,542**

26. Commitments

26.1 Capital Commitments

	Group 30 June 2022 $000	Group 30 June 2021 $000
Capital expenditure committed to at balance date but not recognised in the financial statements	3,094	859

26.2 Grape Purchase Commitments

In the ordinary course of business, YWG has agreements with grape growers which require it to purchase grapes. These agreements have remaining terms of between one and nine years.

27. Contingent Assets and Liabilities

27.1 Contingent Assets

None.

27.2 Contingent Liabilities

In the ordinary course of business, the Group is, from time to time, subject to legal action. The Group considers it has sufficient means to address any such actions including legal fees.

28. New and Revised Accounting Standards and Interpretations

There are no NZ IFRS standards and interpretations that have been recently issued or amended but are not yet effective.

29. Events Subsequent to Balance Date

Marlborough Lines Limited seeking strategic partner in Yealands Wine Group Limited

On 12 August 2022, MLL announced that it is looking for potential strategic partners for its wholly-owned subsidiary, YWG. This is to support accelerated growth for YWG and is consistent with MLL's strategy of pursuing renewable energy and electrication opportunities as part of its Energise Marlborough strategy. At the date of approving these financial statements, the nature and scale of any divestment of YWG assets was unknown and it was not considered that a sale was highly probable, for the purposes of applying accounting treatment under NZ IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations.

Statement of Service Performance

For the year ended 30 June 2022

Explanatory Note: Requirements of Sections 39 and 44 of the Energy Companies Act 1992

Marlborough Lines Limited (MLL) is required to publish a Statement of Corporate Intent each year in collaboration with the Company's shareholders. This document must include a number of financial and operational targets, and this report presents the Company's performance against these targets for the year in review.

For the year ended 30 June 2022, the Company set itself 12 targets in six areas: assets, technology and innovation, financial, people, community and environment. The Company achieved six of its 12 targets during the year.

ASSETS PERFORMANCE TARGETS

1

Target: **MLL's asset management maturity rating to achieve a score of 3.2 or greater.**

Result: MLL produced an Asset Management Plan update during the year, which does not require a full asset management maturity disclosure, but no material changes to MLL's asset management practices were identified, therefore MLL's existing rating of 2.8 remains.

2

Target: **MLL's total SAIDI (average outage minutes) to be less than 150 minutes.**

Result: MLL's total SAIDI for the year to 31 March 2022 was 243.3 minutes. SAIDI minutes were negatively impacted by the July 2021 storm event, which accounted for 101 minutes, with supply restoration hampered by road access issues.

TECHNOLOGY AND INNOVATION PERFORMANCE TARGETS

3

Target: **MLL to deploy two non-network solutions by 30 June 2022.**

Result: MLL has been in the process of negotiating with a number of consumers to utilise non-network solutions for their electricity supply, however, no consumers had agreed to move during the year, preferring the reliability of their network supply.

4

Target: **Energy Marlborough Limited (EML) to own 1MW of renewal electricity generation by 30 June 2022.**

Result: EML has negotiated a contract for the design and construction of a 0.85MW solar farm to be located at its Taylor Pass depot in Blenheim, but construction had not begun by 30 June 2022.

FINANCIAL PERFORMANCE TARGETS

5

Target: **MLL to achieve an overall post-tax rate of return on shareholders funds of 2.9%.**[1]

Result: Achieved 3.36% (2021: 3.35%) return on average shareholders' funds of $366 million for the year. This result is after including Marlborough Lines Limited network assets at valuation and adding back customer discounts adjusted for tax.

6

Target: **To achieve a post-tax cash flow return from investments greater than 0.80%.**

Result: Cash received from investments, including dividends, interest and management fees totalled $2.6 million, equating to a post-tax return of 1.54% (2021: 0.92%) on the amount invested. This rate of return does not include any capital gains on Marlborough Lines' investments.

PEOPLE PERFORMANCE TARGETS

7

Target: **MLL employee engagement score to be established.**

Result: MLL completed its first employee engagement survey in October 2021 and had a combined score of engaged and nearly engaged employees of 93%. MLL has put action plans in place to convert those from nearly engaged to engaged.

8

Target: **MLL to have zero serious harm incidents.**

Result: MLL had one serious harm accident this year, but was unrelated to MLL's critical risks.

COMMUNITY PERFORMANCE TARGETS

9

Target: **Group average discount and distribution made available to consumers of $285.**[2]

Result: Discounts of $8.67m plus GST were paid to retailers in May. A typical consumer received $236. MLL paid a dividend of $1.8m to the Marlborough Electric Power Trust (MEPT) in June 2022, which enables the MEPT to pay a $50 distribution to each consumer.

10

Target: **MLL overall consumer satisfaction score at above 85%.**

Result: Consumer satisfaction with Marlborough Lines' performance remains high. 87% of a sample of over 2,000 consumers rated their satisfaction with MLL's overall performance as either Satisfied or Very Satisfied (2021: 89%).

ENVIRONMENT PERFORMANCE TARGET

11

Target: **MLL net Green House Gas emission to be below a net removal of 750 tonnes.**

Result: Not yet calculated.

12

Target: **MLL total environmental sponsorships of $75,000 or above.**

Result: MLL has provided the following sponsorships during the year: $25,000 Falcon in schools programme; $10,000 Marlborough Sounds Restoration Trust Wilding Pine Eradication Program and $50,000 Pine Valley Wetlands Restoration project.

1 Measured by adjusting MLL's net profit after tax for the discount paid to consumers, divided by average shareholders equity.

2 Based upon a standard residential consumer using 8,000kWh per year with 40% controlled energy, consistent with Ministry of Business Innovation and Employment assumptions for a typical New Zealand household.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF MARLBOROUGH LINES LIMITED'S GROUP CONSOLIDATED FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2022.

The Auditor-General is the auditor of Marlborough Lines Limited and its controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Pamela Thompson, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements and the performance information of the Group on his behalf.

Opinion on the consolidated financial statements and the performance information

We have audited:

- the consolidated financial statements of the Group on pages 66 to 109, that comprise the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 110 to 111.

In our opinion:

- the consolidated financial statements of the Group:
  - present fairly, in all material respects:
    - its consolidated financial position as at 30 June 2022; and
    - its consolidated financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards; and
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 30 June 2022.

Our audit was completed on 28 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the consolidated financial statements and the performance information and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the consolidated financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the Group for preparing performance information that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare consolidated financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the consolidated financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these consolidated financial statements and performance information.

For the budget information reported in the consolidated financial statements and performance information, our procedures were limited to checking that the information agreed to the Group's statement of corporate intent.

We did not evaluate the security and controls over the electronic publication of the consolidated financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the consolidated financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements and the performance information, including the disclosures, and whether the consolidated financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the consolidated financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the performance information, and our auditor's report thereon.

Our opinion on the consolidated financial statements and the performance information does not cover the other information, and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the performance information, our responsibility is to read the other information. In doing so, we will consider whether the other information is materially inconsistent with the consolidated financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Pam Thompson

Pamela Thompson
Partner
For Deloitte Limited
On behalf of the Auditor-General
Wellington, New Zealand

Directory

Management

T J Cosgrove
ME (Mgt), BE (Hons) (Mech), BCom, CEng, CMInstD

Chief Executive Officer

R W Brown
BE (hons) CPEng, IntPE(NZ), FEngNZ, CMEngNZ

GM Engineering and Development

R J Clifton
GradDipBusStud, NZDipWHSM, ProfNZISM

Health, Safety, Environment, Quality Manager

G D Jones
BCom, CA

Chief Financial Officer

S J Mclauchlan
IMLANZ

General Manager Contracting

W G Nichol
DipEng (Electrical)

General Manager Network Operations

R M Wheeler
BBus (HR & IR)

Human Resources Manager

S J Wilkinson
BSc Hons, MBA, MESt

Commercial Manager

Address

Registered Office of Company
1-3 Alfred Street, Blenheim 7240

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PO Box 144, Blenheim 7240

Website

www.marlboroughlines.co.nz

Auditors

Deloitte Limited on behalf of the Controller and Auditor-General

Bankers

ASB Bank Limited, New Zealand

Westpac Banking Corporation, New Zealand

Financial and Tax Advisors

PricewaterhouseCoopers, Wellington/Auckland

Solicitors

Radich Law, Blenheim

Simpson Grierson, Auckland

Glossary

Average Typical Domestic Customer
This is an accepted industry standard for a domestic customer using 8,000kWh per annum comprising 3,200 water heating units (usually controlled) and the balance at 24-hour availability rates

DER
Distributed energy resources, which includes distributed generation

Distributed Generation
Customer owned generation capable of exporting electricity into the local distribution grid

EBIT
Earnings Before Interest and Taxation

EBITDA
Earnings Before Interest, Taxation, Depreciation and Amortisation

EML
Energy Marlborough Limited

EV
Electric Vehicle

GWh
Gigawatt hour – 10^6 kWh, measurement of energy

ha
Hectare – 10,000 square metres

ICP
Installation Connection Point. Point of the supply system where the end use customer is connected

ISO
International Organization for Standardization – a standards body

kV
kilovolt – 1,000 volts, measurement of electrical potential

kVA
kilovolt Ampere – measurement of apparent power

kWh
kilowatt hour – electrical energy equivalent to a power consumption of 1,000 watts for one hour, typically referred to as one unit

MEPT
Marlborough Electric Power Trust

MLL
Marlborough Lines Limited

MVA
Megavolt Ampere – measurement of apparent power (1,000 kilovolt amperes)

MW
Measurement of electricity. 1 MW equals 1,000 kilowatts

NEL
Nelson Electricity Limited

NPAT
Net Profit after Tax

NZ IFRS
New Zealand International Financial Reporting Standards

OAG
Office of the Auditor-General

PV
Photovoltaic – the conversion of light into electricity

RAPS
Remote area power systems – typically off-grid electricity supply arrangements utilising PV arrays, other generation and battery storage

SAIDI
System Average Interruption Duration Index – the average time supply is unavailable to all consumers

SCI
Statement of Corporate Intent

YWG
Yealands Wine Group Limited

Zone Substation
Point within the network where the power supply changes from 33kV to 11kV

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